

Gathering Program or to address our deployment concerns through other means. Any such examination would have to involve our state commission colleagues and any interested parties. In the meantime, we decline to impose additional ARMIS requirements that would fall disproportionately on one segment of the industry.

168. Table II - Transmission Facilities. Table II collects information about components of the network that are used to carry voice, video, and data traffic. Data reported in Table II provide information about transmission facilities for the study area of the carrier. The information is not disaggregated by Metropolitan Statistical Areas (MSA) and non-MSA, as Table I is. The deployment of new technologies and new services in rural areas has been a matter of particular concern for the Commission and other policymakers, and we are trying to better understand the provision of services in these areas.³¹⁸ In the *Notice*, the Commission sought comment on whether to add columns for MSA and non-MSA in Table II. USTA and Verizon argue that it would be extremely burdensome for LECs to report by MSA and non-MSA on Table II.³¹⁹ Ohio CC and NASUCA and Wyoming support the proposal to have carriers report by MSA and non-MSA.³²⁰

169. Transmission facilities are a critical component in the provisioning of new services to rural areas. We cannot compare rural and urban infrastructure development using information as currently reported in ARMIS 43-07. The commenters persuade us, however, that such disaggregation of these data would require incumbent LECs to undertake labor intensive and costly studies. At this time, we are not persuaded that the benefits of having these data in a more disaggregated form would justify the expense involved in such an undertaking.

170. In the first section of Table II, "Sheath Kilometers," carriers report data on transmission facilities within their operating areas. Carriers use either analog or digital technology on copper wire, coaxial cable, fiber, radio, and other media. In the *Notice*, the Commission proposed to change the title "Sheath Kilometers" to "Loop Sheath Kilometers" and to narrow the collection of data to only local loop facilities connecting customers to their serving offices.³²¹ We conclude that this information would be more useful for policymakers and interested parties if it were narrowed to local loop facilities connecting customers to their service offices. Therefore, we now change the title to "Loop Sheath Kilometers" and limit the collection of data to local loop facilities.

171. In the second section of Table II, "Interoffice Working Facilities," total circuit links are reported for baseband, analog carrier, and digital carrier. In the *Notice*, the Commission sought comment on whether to eliminate the reporting requirements that further distinguish baseband, analog, and digital (rows 0331, 0332, 0333, 0350, 0351, 0352, 0360, 0361, 0362, 0363).³²² AT&T contends that we should not eliminate these data because they are essential for benchmarking and monitoring purposes.³²³ It appears, however, that these data are often reported in an inconsistent manner by the carriers, and therefore are not reliable for benchmarking

³¹⁸ See *Local Competition and Broadband Data Gathering Program*, 15 FCC Rcd 7717 (2000).

³¹⁹ USTA Comments at 26; Verizon Comments at 11.

³²⁰ Ohio CC and NASUCA Joint Comments at 9; Wyoming Comments at 4.

³²¹ USTA contends the majority of LECs do not have the ability to collect these data solely for loop plant. USTA Comments at 26.

³²² *Notice* at ¶ 72.

³²³ AT&T Comments at 8. See also Ohio CC and NASUCA Joint Comments at 8.

purposes.³²⁴ We find that there is no significant regulatory need to retain the subcategories in rows 0331 through 0363. Therefore, we eliminate these rows.

172. The Commission also sought comment on including categories for optical carrier facilities and non-optical carrier facilities.³²⁵ Optical carrier facilities, such as synchronous optical networks (SONET) are currently being deployed by the incumbent LECs. Ohio CC and NASUCA support requiring carriers to report this information.³²⁶ After reviewing the record, we are not convinced that our ARMIS reports are appropriate for tracking the deployment of SONET. SONET equipment, *i.e.*, terminal multiplexers and add/drop multiplexers, comprise a major portion of interoffice facilities. It is also present in loop facilities where it supports digital metallic or fiber loops. SONET physical topologies include point-to-point, linear, tree, and ring configurations. Due to SONET's widespread use in diverse configurations, our ARMIS reports may not be adequate to track the deployment of SONET. Therefore, we decline to add categories for these facilities at this time.

173. In the third section of Table II, "Loop Plant-Central Office Terminations," carriers report total working channels and total equipped channels. Under each category, there is a requirement for reporting six subcategories (copper, baseband, analog carrier, digital carrier, fiber digital carrier, and other). In the *Notice*, the Commission sought comment on whether to eliminate the reporting of six subcategories of equipped channels, and retain only the total of equipped channels.³²⁷ GSA argues, and we agree, that these subcategories should not be eliminated at this time because the relationship of working channels to equipped channels is important in the analysis of copper plant utilization. Together with financial information, such analysis is used in determining appropriate forward-looking depreciation lives for present use in developing inputs to our high cost model for our universal service purposes and state use in UNE cost studies.³²⁸ Therefore, we are retaining the subcategories in these rows in ARMIS, pending further exploration of alternative means of gathering such information.

174. In the *Notice*, the Commission proposed to eliminate reporting of fiber strands terminated at the customer premises at the DS-0 rate (row 0481) and fiber strands terminated at the customer premises at the DS-2 rate (row 0483) from the fourth section of Table II, "Other Transmission Facility Data."³²⁹ AT&T argues that these data are essential for benchmarking and monitoring purposes.³³⁰ We agree that as a general matter this information can be helpful; however, virtually no incumbent LEC reports the termination of DS-2 level services at the customer premises, and therefore row 0483 does not provide useful information. We conclude that row 0483 should be eliminated. We also conclude that row 0481 (DS-0 rate) should be eliminated. DS-0 level services are generally bundled into DS-1 size packages, and by capturing the required information at the DS-1 level, we do not need to collect the information at the DS-0

³²⁴ A review of these data suggests that the reporting carriers are not reporting the same things. Therefore, the data are not comparable.

³²⁵ *Notice* at ¶ 72.

³²⁶ Ohio CC and NASUCA Joint Comments at 9.

³²⁷ *Notice* at ¶ 73.

³²⁸ *See, e.g.*, GSA Comments at 12; AT&T Comments at 8.

³²⁹ *Notice* at ¶ 74.

³³⁰ AT&T Comments at 8.

level. Row 0482 (DS-1) will be renamed, because fiber is terminated at customer premises at the DS-3 level or greater, and referring to fiber terminations at the DS-1 level is inaccurate.

175. The Commission also sought comment on adding information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Such information is not presently collected through any federal reporting program. WorldCom argues that this report should be updated with the reporting of digital loop carrier deployment and other changes in the local loop plant.³³¹ We find that the addition of these rows to ARMIS would help satisfy an immediate and pressing need to assess the penetration of fiber in the local loop and gauge the development of broadband infrastructure. Hybrid architectures will likely become increasingly important in providing broadband services and are directly relevant to current criticisms by new entrants that the new architectures are systematically diminishing their ability to provide competing DSL service to end-user retail customers. We conclude that there is a present federal regulatory need, at least for the near term, to collect such data to evaluate the effects of our public policy decisions and to consider whether more market-oriented approaches are appropriate. Therefore, we are adding the following rows to ARMIS: "Hybrid Fiber/Metallic Loop Interface Locations,"³³² "Switched Access Lines Served from Interface Locations,"³³³ "Total xDSL Terminated at Customer Premises,"³³⁴ and "xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations."³³⁵ As set forth in the attached Further Notice, we seek comment on whether we should collect this information as part of our *Local Competition and Broadband Data Gathering Program*, rather through ARMIS.

176. Table III - ILEC Call Set-up Time. In Table III, information is provided about incumbent LEC call set-up time for calls delivered by the incumbent LEC to interexchange carriers. Incumbent LEC call set-up time measures the time from when the customer completes dialing until the call reaches an interexchange carrier. This information was important when carriers used different signaling systems, but now that SS7 is predominant, there is little

³³¹ WorldCom Comments at 8. See also Maryland Sept. 7, 2001 *ex parte* at Appendix (arguing that we should upgrade ARMIS to collect information on new technologies and upgrades and investments in switching and transmission capacity that are critical components of the carriers' network infrastructure).

³³² "Hybrid Fiber/Metallic Loop Interface Locations" will contain the number of locations other than central office locations where an interface between fiber cable and copper pairs or coaxial cable exists. This will include fiber to the curb locations, fiber to the pedestal locations, and other similar locations with a fiber/metallic interface capable of providing broadband services.

³³³ "Switched Access Lines Served from Interface Locations" will contain the number of switched access lines reported in row 0120 that are physically routed through the interface locations reported in "Hybrid Fiber/Metallic Loop Interface Locations."

³³⁴ "Total xDSL Terminated at Customer Premises" will contain the total number of incumbent LEC provided working digital subscriber lines terminated at customers' premises locations. This will include lines provided over metallic loop facilities and lines provided over a combination of fiber and metallic loop facilities. This will also include lines terminating in either incumbent LEC-provided or customer-provided termination equipment. Only those lines that are totally provided by the incumbent LECs are included.

³³⁵ "xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations" will contain the number of customer-premises-terminated working digital subscriber lines that are provided through a hybrid fiber/metallic interface location included in "Hybrid Fiber/Metallic Loop Interface Locations." This will include only those lines that are provided at least partially on fiber facilities.

difference among LECs. In the *Notice*, the Commission proposed to eliminate this table.³³⁶ AT&T argues that these publicly available data are important for interexchange carriers (IXCs) seeking to monitor the performance of LECs in the provision of access services.³³⁷ We are not persuaded, and conclude that this information is no longer significant.³³⁸ Therefore, we eliminate Table III.

177: Table IV - Additions and Book Costs. In Table IV, carriers report data concerning total access lines in service, access line gain, and total gross capital expenditures. This information provides data on carriers' actions to maintain and upgrade the network. The data in this table are at the study-area level. Similar data in the ARMIS 43-02 Report are available at either the operating-company or company-study-area (state) level, but are not directly comparable to these data. In the *Notice*, the Commission sought comment on whether to continue to collect this information.³³⁹ AT&T argues that these data are essential for benchmarking and monitoring purposes.³⁴⁰ We conclude that we can eliminate the filing of this table because similar data are available in other ARMIS reports or can be generated by reference to other ARMIS reports.

7. ARMIS 43-08 (Operating Data Report)

178. The ARMIS 43-08 Report collects data about the carrier's outside plant, access lines in service by technology and by customer, number of telephone calls, and billed access minutes. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43-08 Report on an operating company basis. USTA, BellSouth, and Verizon argue that we should eliminate Report 43-08 altogether, because it is obsolete.³⁴¹ USTA contends that the definitions for the 43-08, Table III are becoming more ambiguous as the public switched network evolves toward a data platform.³⁴² USTA observes that in a high bandwidth network, the concept of DS0 equivalents is no longer viable.³⁴³ Other commenters contend that the ARMIS 43-08 tables, which collect data on an operating company level by state, provide us with the ability to assess trends in investment in physical plant and to benchmark among carriers.³⁴⁴ Oregon also states that it periodically uses ARMIS 43-08 to obtain information about access lines in other jurisdictions.³⁴⁵ After careful consideration of these

³³⁶ *Notice* at ¶ 75.

³³⁷ AT&T Comments at 8.

³³⁸ WorldCom Comments at 7.

³³⁹ *Notice* at ¶ 76.

³⁴⁰ AT&T Comments at 8.

³⁴¹ USTA Comments at 26; BellSouth Comments at 6 & Reply Comments at 7; Verizon Comments at 12.

³⁴² USTA Comments at 26.

³⁴³ *Id.*

³⁴⁴ See, e.g., AT&T Comments at 8; WorldCom Reply Comments at 7-8. NCTA observes that columns in Table I.A for Equivalent number of poles (v), Conduit system trench Km (w), and Conduit system duct Km (x) are needed for calculation of pole and conduit rental. See NCTA Aug. 31, 2001 *ex parte*.

³⁴⁵ Oregon Comments at 6.

competing views, we conclude that some of the information in ARMIS 43-08 is of little value and thus we eliminate certain categories of this report as follows.

179. Table I.A – Outside Plant Statistics – Cable and Wire Facilities. In the *Notice*, the Commission sought comment on whether to eliminate the reporting requirements in Table 1.A (Outside Plant Statistics – Cable and Wire Facilities), that distinguish among aerial, underground, buried, submarine, deep sea, and intrabuilding cable plant (columns d – o). After reviewing the record, we conclude that columns d through i, n, and o are useful and should not be eliminated. As WorldCom and GSA observe, this information concerning network maintenance and upgrading is utilized to develop inputs to the high cost model for universal service purposes and to develop inputs to models used to determine forward-looking economic costs in state UNE ratemaking proceedings.³⁴⁶ Pending further exploration of alternative means of gathering such information, we believe we should retain this reporting requirement in ARMIS to meet ongoing federal and state regulatory needs.³⁴⁷ Columns j, k, l, and m, however, can be eliminated because little, if any, data are reported for these categories. Therefore, we are only eliminating columns j, k, l, and m.

180. Table I.B - Outside Plant Statistics – Other. In the *Notice*, the Commission proposed to eliminate the reporting of information on satellite channels and video circuits for carriers' radio relay and microwave systems (columns be, bj, bm). Due to changes in technology, data collected in these areas no longer are relevant to our policy analysis on various issues. Therefore, we are eliminating these three columns.

181. Table II - Switched Access Lines in Service by Technology. In the *Notice*, the Commission proposed to eliminate the distinction between analog and digital lines, and require carriers to report the total of main access lines, PBX and Centrex units, and Centrex extensions (retain columns cc, cd, and ce on a total basis; and eliminate columns cf, cg, and ch).³⁴⁸ WorldCom contends that we should not eliminate this information because it is required to estimate forward-looking costs in the Commission's synthesis model and in other forward-looking cost models.³⁴⁹ After reviewing the record, we conclude that this information would be more useful if provided on a total basis, instead of disaggregated by analog and digital. Due to changes in technology, data collected in some of these areas are trivial and no longer provide relevant information. Therefore, we are adopting the proposal in the *Notice*, and eliminating the distinction between analog and digital by eliminating columns cf, cg, and ch.

182. Table III - Access Lines in Service by Customer. In the *Notice*, the Commission proposed to narrow the information collection to total number of Business Access Lines (Single-Line and Multi-Line) and Residential Access Lines (Lifeline/Non-Lifeline and Primary/Non-Primary).³⁵⁰ For example, the synthesis model uses data concerning single-line business, multi-line business, payphone, residential, and special (special access) in determining wire center costs, for universal service purposes.³⁵¹ The Commission also sought comment on whether Special Access Lines (Analog and Digital) (columns dk and dl) provide accurate information about the

³⁴⁶ WorldCom Comments at 8; GSA Comments at 12.

³⁴⁷ See Further Notice of Proposed Rulemaking at paragraphs 208-211.

³⁴⁸ *Notice* at ¶ 77.

³⁴⁹ WorldCom Comments at 8.

³⁵⁰ *Notice* at ¶ 79.

³⁵¹ *Id.*

carriers' provision of special access lines and whether there is a need for clarification of this reporting requirement.

183. After reviewing the record, we conclude that extensive structural changes to Table III are warranted. We eliminate the column for Mobile Access Lines, because little, if any, data are reported for this category. The revised table will also contain new columns matching the revised data requirements, discussed above. Columns "Single Line Business Access Lines" and "Multiline Business Access Lines" will be under the "Business Switched Access Lines" heading. Columns "Lifeline Access Lines," "Non-Lifeline Primary Access Lines," and "Non-Lifeline Non-Primary Access Lines" will be under the "Residential Switched Access Lines" heading. A column "Local Private Lines" is added. Finally, we conclude that the instructions and definitions for columns dk and dl are sufficiently clear and that there is no need to revise or clarify them.

E. Relief for Mid-Sized Carriers

184. As previously noted, the Commission uses an indexed revenue threshold to determine which carriers are classified as Class A and which carriers are classified as Class B. Class A companies are defined as companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.³⁵² That revenue threshold is currently \$117 million.³⁵³ Class A carriers are required to keep their accounts at a greater level of detail, file CAMs with the Commission, have those CAMs audited by an independent auditor, and file ARMIS reports.³⁵⁴ Class B carriers, in contrast, may keep their accounts at a more aggregated level of detail, are not required to file CAMs, are not required to have their CAMs audited by an independent auditor, and are not subject to ARMIS financial reporting requirements.³⁵⁵

185. Today there are over 1300 incumbent LECs in the country. Of those, the Class A carriers are the BOCs (the operating companies of Verizon, SBC, BellSouth, and Qwest) and the operating companies of ALLTEL, Cincinnati Bell, Citizens Communications, Sprint, C-TEC, Roseville, and CenturyTel. The BOCs have 87.6 percent of the incumbent LECs' access lines, while the remaining Class A companies collectively have 6.1 percent of the incumbent LECs' access lines. Thus, all the Class A companies have 93.7 percent of the incumbent LECs' access

³⁵² 47 C.F.R. § 32.11(a)(1).

³⁵³ See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 01-903 (rel. Apr. 11, 2001) (adjusting annual indexed revenue threshold to \$117 million). The classification of a company is determined at the start of the calendar year following the first time its annual operating revenue from regulated operations equals, exceeds, or falls below the indexed revenue threshold. 47 C.F.R. § 32.11(e).

³⁵⁴ More specifically, a carrier files ARMIS Reports 43-01, 43-02, 43-03, 43-04, and 43-08 when the carrier's annual operating revenues for the preceding year equals to or exceeds the indexed revenue threshold. Similarly, a carrier with annual operating revenues for the preceding year that is equal to or exceeds the indexed revenue threshold must file a CAM and have the CAM audited. These reporting requirements are based on total, not regulated, operating revenues. See *Implementation of the Telecommunications Act of 1996*, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8102, ¶ 68 (1997).

³⁵⁵ In the *Joint Cost Order*, the Commission adopted cost allocation standards and affiliate transactions rules for all LECs (with the exception of average schedule companies) but exempted the smaller companies from the requirement to file a cost allocation manual and an annual independent audit. See *Joint Cost Order*, 2 FCC Rcd at 1304, ¶ 47.

lines. The remaining companies are classified as Class B; collectively they have 6.3 percent of the incumbent LECs' access lines.

186. There is a significant variation in the size and scope of the operating companies that currently are classified as Class A.³⁵⁶ In general, the BOCs are significantly larger than the remaining Class A companies.³⁵⁷ The operating company of BellSouth had annual revenues reported in ARMIS of over \$17.6 billion. The operating company of Qwest had annual revenues reported in ARMIS of over \$11.5 billion. The largest SBC operating company, Southwestern Telephone Company, had annual revenues of over \$12.4 billion.³⁵⁸ The largest Verizon operating company, Verizon-New York Telephone, had annual revenues of over \$8.1 billion.³⁵⁹ The revenues of the mid-sized companies range from over \$114.9 million for Roseville to over \$1.4 billion for Sprint-Florida (an operating company of Sprint).³⁶⁰ Likewise, in terms of access lines, the BOCs range from over 25.4 million (BellSouth) to 193,992 (Verizon Mid-States), while the access lines of the remaining Class A companies (mid-sized companies) range from over 2.2 million for Sprint-Florida to 124,453 for Roseville.³⁶¹

187. In recognition of the differences between the mid-sized companies and the BOCs, the Commission has differentiated between these carriers in terms of accounting and reporting requirements. For example, in the *ARMIS Reductions Report and Order*, the Commission reduced ARMIS filing requirements for mid-sized carriers, defined as a carrier whose operating revenue equals or exceeds the indexed revenue threshold, and whose revenue when aggregated with the revenues of any LEC that it controls, is controlled by, or with which it is under common control is less than \$7 billion.³⁶² Specifically, the Commission permitted mid-sized carriers to file financial ARMIS reports at a Class B level of detail. Similarly, in the *Accounting Reductions Report and Order*, the Commission allowed mid-sized incumbent LECs to submit CAMs based on Class B accounts and to obtain an attestation every two years in lieu of an annual financial audit.³⁶³ In that proceeding, the Commission concluded that it could maintain the necessary degree of oversight and monitoring to protect consumers' interests while imposing the less administratively burdensome requirements on such carriers.³⁶⁴

188. In the *Notice*, the Commission proposed further reductions in accounting and reporting requirements for the mid-sized carriers. The Commission proposed to eliminate mandatory annual CAM filings and biennial CAM attestation engagements for mid-sized

³⁵⁶ The following Class A revenues are from 2000 ARMIS data.

³⁵⁷ There are a few exceptions, such as Nevada Bell (an operating company of SBC) and Verizon Mid-States (an operating company of Verizon), which are smaller than many of the mid-sized companies.

³⁵⁸ All of the SBC operating companies, combined, reported over \$38.5 billion in 2000 revenues.

³⁵⁹ All of the Verizon operating companies, combined, reported over \$41.2 billion in 2000 revenues.

³⁶⁰ All of the Class A Sprint operating companies, combined, reported approximately \$5.3 billion in 2000 operating revenues. Sprint also has Class B companies, which combined had approximately \$128 million in operating revenues. We also note that Roseville has now passed the indexed revenue threshold and is considered a mid-sized carrier.

³⁶¹ All of the Class A Sprint operating companies, combined, reported over 7.8 million access lines. Sprint's Class B operating companies had 356,250 access lines.

³⁶² See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12.

³⁶³ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11406 - 07, ¶¶ 21 - 22.

³⁶⁴ *Id.*

carriers.³⁶⁵ Under this proposal, the mid-sized carriers would instead file an annual certification with the Commission. As an alternative, the Commission sought comment on reclassifying the mid-sized carriers as Class B carriers.³⁶⁶ The Commission also sought comment on raising the indexed revenue threshold -- the dividing line between Class A carriers and Class B carriers -- to \$200 million.³⁶⁷

189. As discussed below, we conclude that we can significantly lighten regulatory burdens for mid-sized carriers by adopting the proposals in the *Notice* to eliminate mandatory CAM filings and attestation audits for mid-sized carriers. We also significantly streamline ARMIS reporting for the mid-size companies. The net effect of the reforms we adopt today, coupled with measures already taken, will be to treat the mid-sized carriers like Class B companies in virtually all respects. We decline to formally reclassify the mid-sized carriers as Class B companies, however, as that action would impact our ability to administer the universal service high-cost support mechanism for non-rural carriers. Finally, we address the status of Roseville and CenturyTel, mid-sized carriers, which crossed the indexed revenue threshold in 1999, and became subject to ARMIS reporting and CAM requirements in 2000.

1. Cost Allocation Manuals

190. We adopt the proposal in the *Notice* to eliminate the annual CAM filing for mid-sized carriers. Under section 64.901 of the Commission's rules, all carriers (except average schedule companies) must separate regulated from nonregulated costs. While mid-sized carriers no longer will be required to annually file a CAM, they, like all other carriers, must be prepared to produce documentation of how they separate regulated from nonregulated costs to the Bureau, upon request. To ensure that the carrier has adequate procedures in place to separate the costs of their nonregulated activities from their regulated operations, in accordance with our rules, carriers are always free to seek guidance from the Common Carrier Bureau.

191. We also adopt the proposal in the *Notice* to eliminate the requirement that CAMs of mid-sized carriers be subject to an attest audit every two years. Instead of requiring mid-sized carriers to incur the expense of a biennial attestation engagement, they will file a certification with the Commission stating that they are complying with section 64.901 of the Commission's rules. The certification must be signed, under oath, by an officer of the incumbent LEC, and filed with the Commission on an annual basis. Such certification of compliance represents a less costly means of enforcing compliance with our cost allocation rules.

192. We emphasize that all incumbent LECs (except average schedule companies) remain subject to our cost allocation rules, which are increasingly important as more carriers diversify into competitive ventures. Indeed, one commenter argues that certain mid-sized carriers may have a larger percentage of operations in non-regulated activities than do some of the largest LECs.³⁶⁸ The action we take today seeks merely to reduce the costs associated with ensuring compliance with our cost allocation rules. We are aware that some mid-sized carriers have more limited resources than the larger companies, and that the cost of regulatory compliance may disproportionately impact these carriers. These carriers account for a small fraction of the

³⁶⁵ *Notice* at ¶ 82.

³⁶⁶ *Id.* at ¶ 80.

³⁶⁷ *Id.* at ¶ 83.

³⁶⁸ See AT&T Comments at 10.

nation's access lines. These rule changes -- eliminating the annual CAM filing and the biennial attestation engagement -- should significantly reduce the mid-sized carriers' costs in complying with the Commission's cost allocation rules. We note, however, that pursuant to section 220(c), the Commission has the authority to request further information or order an audit of any carrier's books to ensure compliance with our cost allocation requirements.

2. ARMIS Reporting Requirements

193. In the *Notice*, the Commission proposed eliminating the ARMIS 43-02, 43-03, and 43-04 reporting requirements for mid-sized carriers.³⁶⁹ The Commission also sought comment on the costs and benefits of requiring mid-size carriers to file ARMIS 43-08.³⁷⁰ In addition, the Commission sought comment on eliminating all ARMIS filing for mid-sized carriers.³⁷¹ Commenters opposing the proposal to eliminate these reports for mid-sized carriers contend that this information is needed by state commissions, state consumer advocates, and other parties in reviewing the operations of mid-sized carriers.³⁷² On the other hand, several commenters urge the Commission to eliminate all ARMIS filings for mid-size carriers.³⁷³ CBT argues that mid-sized carrier data are an insignificant portion of the ARMIS data collected, and the Commission should not require mid-sized carriers to file any ARMIS reports.³⁷⁴ Roseville and Iowa Telecom contend that preparing and filing ARMIS reports for the first time will require substantial personnel and monetary resources.³⁷⁵ Sprint, the largest of the mid-sized carriers, contends that its annual, fully loaded cost for preparing ARMIS reports is \$250,000.³⁷⁶

194. We recognize that some of the mid-sized carriers have financial transactions that are generally smaller and fewer in number than the larger incumbent LECs. We also note that although we have already streamlined the ARMIS reporting requirement for mid-sized carriers, by permitting them to file ARMIS at the more aggregated Class B level, the cost of filing ARMIS reports may be higher for the mid-sized carriers, on a per line basis, than for the larger Class A companies. We are also aware that while mid-sized companies have the same incentives and opportunities for shifting costs between services, our federal regulatory focus has primarily been on the larger LECs that comprise most of the access lines. We therefore conclude that it is appropriate at this time to provide additional reporting relief to mid-sized carriers. In balancing

³⁶⁹ *Notice* at ¶ 84.

³⁷⁰ *Id.* at ¶ 85. Commenters did not specifically address this issue.

³⁷¹ *Id.* at ¶ 80.

³⁷² *See, e.g.,* Ohio CC and NASUCA Joint Comments at 11; AT&T Comments at 9-10; WorldCom Comments at 10; Idaho Comments at 7; Oregon Comments at 7; Wisconsin Comments at 22-23; NARUC Reply Comments at 7.

³⁷³ *See, e.g.,* Sprint Comments at 2; CBT Comments at 8-11; ALLTEL Comments at 3 (requesting no CAM or ARMIS requirements for the ALLTEL companies); Roseville Comments at 8-9; ITTA Comments at 8; USTA Comments at 27.

³⁷⁴ CBT Comments at 10-11.

³⁷⁵ Roseville Comments at 3-5; Iowa Telecom Comments at 4. Roseville estimates (for its initial ARMIS filing) that it will take 4,690 hours, or \$272,000. Roseville Comments at 4-5.

³⁷⁶ Sprint Comments at 4. Clearly this is not an insignificant sum, however, it is only 0.048 percent of Sprint's annual revenue. Ohio CC and NASUCA Joint Reply Comments at 10.

the carriers' costs and our regulatory needs, we conclude that the mid-sized carriers will no longer be required to file the ARMIS 43-02, 43-03, or 43-04 Reports.³⁷⁷

195. We are not persuaded, however, that we should eliminate ARMIS reporting altogether for the mid-sized carriers. Our primary concern is to preserve our ability to obtain information used to compute non-rural carrier universal service high-cost support. We retain at this time the requirement that mid-sized carriers file the ARMIS 43-01 and 43-08 Reports. Information in these reports is utilized to develop inputs to the high cost model for universal service purposes and develop inputs to models used to determine forward-looking economic costs in state UNE ratemaking proceedings. For example, the line count input values used in the universal service model include special access lines, which are currently reported in the ARMIS 43-08 Report. Similarly, the switching input values include company-specific telephone call data, which are reported only in the ARMIS 43-08 Report. We intend to initiate a proceeding in the near future to examine how often and to what extent the high cost model inputs should be revised and updated. In that proceeding, we intend to explore alternatives to ARMIS reporting as a means of obtaining the data necessary to generate inputs used in the universal service cost model.

196. We note that in addition to information contained in ARMIS Reports 43-01 and 43-08, the Commission has used other accounting information from mid-sized carriers to develop inputs for the universal service model. While mid-sized carriers no longer are required to report certain information in ARMIS, we expect those companies will maintain sufficient information to be able to produce the data set forth in Appendix E, upon request.

197. In addition, mid-sized incumbent LECs should continue to maintain subsidiary record categories to provide the data currently provided in the Class A accounts, which are necessary to calculate just and reasonable pole, duct, conduit, and right-of-way attachment rates pursuant to section 224 of the Communications Act.³⁷⁸ These carriers must report this information, necessary for the Commission and interested parties to calculate and verify attachment rates, in ARMIS, so that the information is publicly available and verifiable.

198. We recognize that the states may need certain information from these carriers in order to carry out their regulatory duties and responsibilities.³⁷⁹ Nothing in this decision is intended to preclude a state from imposing its own reporting requirements to review the operations of the mid-size companies. Moreover, we recognize that the costs and benefits of regulatory compliance may be weighed differently at the state level.

3. Regulatory Classification of Mid-Sized Carriers

199. By our actions today, mid-sized carriers will be treated like Class B carriers in virtually all respects. In light of the regulatory relief granted to all mid-sized carriers, we see no reason to modify the current indexed revenue threshold of \$117 million, which is the dividing line between Class A and Class B companies.³⁸⁰ No party in this proceeding has presented any

³⁷⁷ As previously noted, ARMIS 43-05 (filed by all price cap LECs) and 43-06 (filed by mandatory price cap LECs) are under examination in a separate proceeding and are not affected by our decision today.

³⁷⁸ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11404-05, ¶ 15.

³⁷⁹ See, e.g., Maryland Comments at 5-6; NARUC Reply Comments at 7.

³⁸⁰ The threshold between Class A and Class B will continue to be indexed annually in accordance with our current rules.

persuasive justification for why the threshold should be adjusted to \$200 million, or some higher figure.³⁸¹ We will continue to monitor developments in the marketplace, however, to ensure that our current definitional framework does not inadvertently create unintended consequences.

200. We grant ITTA's request that we index the \$7 billion threshold that divides the mid-sized carriers and the larger Class A carriers.³⁸² In 1996, we indexed the threshold between Class A and Class B carriers to implement the directive of the 1996 Act that the Commission adjust our existing revenue requirement to account for inflation in classifying carriers under section 32.11 and in establishing reporting requirements pursuant to Part 43.³⁸³ Subsequently, in 1999, we streamlined our regulatory treatment for the smaller Class A carriers by creating a new classification within Class A for the mid-sized carriers.³⁸⁴ We now conclude it would be analytically consistent with section 402(c) to henceforth index for inflation the revenue threshold that separates the larger Class A carriers and the mid-sized carriers.

201. We decline to redefine mid-sized carrier based on the two-percent of access lines standard suggested by several commenters.³⁸⁵ We historically have used revenues as the dividing line between larger and smaller companies, and we see no need at this time to depart from that practice. With the rule changes adopted today, we ensure that the mid-sized carriers will be subjected to lightened regulatory burdens.

4. Waivers for Roseville and CenturyTel

202. Due to the significant changes adopted in this Report and Order to our Chart of Accounts and the reporting requirements for mid-sized carriers, we are waiving, on our own motion, the ARMIS reporting requirements and CAM attestation requirements for Roseville and CenturyTel for the years 2000 and 2001. These two mid-sized companies have yet to file ARMIS reports for 2000.³⁸⁶ Without a waiver, these companies would be required to prepare ARMIS

³⁸¹ See Sprint Comments at 5 (\$400 million); TDS Comments at 7-8 (\$500 million); Roseville Comments at 10 (same); Iowa Telecom Comments at 2-3 (\$750 million).

³⁸² ITTA Comments at 16.

³⁸³ See Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Order and Notice of Proposed Rulemaking*, 11 FCC Rcd 11716, 11721-22, ¶¶ 10-12 (1996) (adopting interim rules to comply with the section 402(c) requirement that we adjust the revenue thresholds for inflation and that the adjustments take effect on February 8, 1996). Permanent rules were subsequently adopted in Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8089-092, ¶¶ 36-44 (1997).

³⁸⁴ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11403-04, ¶ 14.

³⁸⁵ See ALLTEL Comments at 10; Roseville Comments at 4-5; ITTA Comments at 8-16; CBT Comments at 8. We do not agree with ITTA that the use of a two percent standard in section 251(f)(2) of the Communications Act "represents Congress's view of a proper differentiation between large ILECs with substantial resources that require heightened Commission regulation and scrutiny, and small and mid-size ILECs," see ITTA Comments at 11, and therefore the Commission should use the two percent standard in defining Class A and Class B carriers for accounting purposes. Section 251(f)(2) of the Communications Act permits carriers with fewer than two percent of the Nation's subscriber lines installed in the aggregate nationwide to petition a state commission for a suspension or modification of interconnection requirements in section 251(b) or (c). 47 U.S.C. § 251(f)(2). This section has no application to the CAM and ARMIS filing threshold. See Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8102-03, ¶ 69 (1997).

³⁸⁶ These carriers sought, and were granted, extensions of time in which to file ARMIS reports. See Roseville Telephone Company Request for an Extension of Time to File ARMIS Reports, ASD File No.

reports for the years 2000 and 2001 based on our old chart of accounts. The ARMIS reports filed on April 1, 2003 (*i.e.*, for year 2002) will be based on the new chart of accounts adopted in this report and order.

203. The Commission may grant a waiver of its rules for good cause shown.³⁸⁷ Waiver of the Commission's rules is appropriate only if special circumstances warrant a deviation from the general rule and such deviation will serve the public interest.³⁸⁸ Roseville and CenturyTel are the only Class A companies that have not yet filed an initial ARMIS report. These companies have been granted an extension of time in which to file. We find that this particular situation, where our rules have changed before the parties have complied under old rules, is a special circumstance. Without a waiver, these companies would file ARMIS reports for the years 2000 and 2001 based on our old chart of accounts, and then file ARMIS reports for year 2002 based on our new chart of accounts. We find that in this case, special circumstances warrant a deviation of the general rule and the deviation will serve the public interest. Under these circumstances, it would be an inefficient use of resources to prepare ARMIS reports for the years 2000 and 2001 based on our old chart of accounts. A deviation of our general rule, in order to allow these two companies to file their initial ARMIS reports on April 1, 2003, under the new chart of accounts adopted in this Report and Order, would serve the public interest. The resources the companies would otherwise use in setting up their computer systems under the old chart of accounts can be used instead on service to their customers.

204. Similarly, we are also waiving our requirements for a CAM attestation for these mid-sized incumbent LECs. The attestation cannot take place until the ARMIS reports are prepared. We cannot, therefore, require a CAM attestation until after the ARMIS reports are filed and a CAM attestation will no longer be required of mid-sized companies under our rules adopted in this Report and Order. Therefore, we are waiving the ARMIS reporting requirements for Roseville and CenturyTel, and the CAM attestation requirement, for the years 2000 and 2001.

IV. FURTHER NOTICE OF PROPOSED RULEMAKING

A. Phase III (CC Docket No. 00-199 and 99-301)

205. Concurrent with the adoption of the Phase 2 *Notice*, the Commission also undertook a broader examination of the roadmap for accounting and reporting deregulation.³⁸⁹ The Commission recognized that as regulatory, technological, and market conditions change in the future, it must consider more fundamental changes to the accounting and reporting requirements. The Commission sought comment on whether there are certain triggers that would allow it to significantly modify or relieve accounting and reporting requirements that currently apply to incumbent local exchange companies. Among other things, the Phase 3 *Notice* sought comment on whether accounting and reporting requirements should be eliminated when carriers become

00-43, *Order*, 15 FCC Rcd 24093 (Com.Car.Bur. 2000); CenturyTel, Inc. and CenturyTel of Washington, Inc. Request for Extension of Time to Submit Cost Allocation Manual Attestation Reports and File ARMIS Reports, ASD File No. 00-45, *Order*, 16 FCC Rcd 1493 (Com.Car.Bur. 2000).

³⁸⁷ 47 C.F.R. § 1.3.

³⁸⁸ See United States Telephone Association Petition for Waiver of Part 32 of the Commission's Rules, *Order*, 13 FCC Rcd 214 (Com. Car. Bur. 1997) (*citing Northeast Cellular Tel. Co. v. FCC*, 897 F.2d 1164 (D.C.Cir. 1990) (*Northeast Cellular*); *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C.Cir. 1969), *cert. denied* 409 U.S. 1027 (1972) (*WAIT Radio*)).

³⁸⁹ See *Notice* at ¶¶ 87-98.

non-dominant. The Commission also sought comment on whether certain accounting requirements should sunset when the section 272 separate affiliate requirements sunset for a given carrier in a particular state, and whether achieving pricing flexibility should be a trigger for relaxing accounting and reporting requirements.

206. We remain fully committed to moving forward with Phase 3 of this proceeding. In our view, the question is not whether further deregulation should occur, but rather when. We are skeptical of assertions that these requirements should continue for the indefinite future. As competition continues to develop, the original justifications for our accounting and reporting requirements may no longer be valid. Even apart from the changing nature of the marketplace, there is a substantial question whether some of the rules we retain today impose burdens unnecessarily. And as formerly distinct sectors of the communications industry continue to converge, there is reason to reexamine the justifications for imposing detailed accounting and reporting requirements on only one class of competitors. With these considerations in mind, we now seek to refresh the Phase 3 record in light of the findings made and actions taken today. We look forward to working closely with the states, incumbent carriers, and other interested parties in this endeavor as we continue our examination of these issues.

207. As set forth above in the Phase 2 *Report and Order*, state regulators have articulated current regulatory needs to maintain certain Class A accounts and ARMIS filing requirements for various purposes, including assisting their work in promoting local competition, developing appropriate prices for unbundled network elements, and conducting local ratemaking proceedings. While the Commission also uses some of this information, in administering our current support mechanisms, for example, we identified in the foregoing order a number of accounts and requirements that appear no longer necessary for federal purposes: Account 5040, Private line revenue; Account 5060, Other basic area revenue; Account 1500, Other jurisdictional assets – net; Account 4370, Other jurisdictional liabilities and deferred credits – net; and Account 7910, Income effect of jurisdictional ratemaking differences – net. We believe that, if we cannot identify a federal need for a regulation, we are not justified in maintaining such a requirement at the federal level. At the same time, however, we recognize that an immediate end to such requirements could cause severe problems for state regulators. We would thus like to work with the states to arrange an orderly transition to a mechanism in which states undertake responsibility for collecting this information. We tentatively conclude that we should leave these federal requirements in place for a period of three years to enable states to develop alternative means of gathering this information, after which the federal requirements would terminate. We seek comment on this proposal. Commenters should address whether three years is a sufficient amount of time to transition from federal to state information gathering mechanisms. Commenters should also address whether it would be necessary for each state to set up its own mechanism or whether states might work collectively to set up a mechanism to collect information for multiple states. We understand that some states are required by state law to mirror federal accounting requirements. We ask that those states identify themselves and describe the precise nature of their state statutory constraints. We also seek comment on whether, rather than sunseting these federal requirements, there are other means to reform federal requirements that serve only state regulatory needs.

208. For our other accounting and reporting requirements, we continue to have a federal need for this information, such as administering our current support mechanisms for universal service and price cap regulation. While we believe that the benefits of continuing these federal requirements, at present, outweigh the potential burdens, our assessment of that calculation is likely to change as technological and market conditions continue to evolve. Although the sufficiency of alternative mechanisms to obtain the requisite information is not

apparent on the record before us, we seek comment on alternatives to our current accounting and reporting requirements. We also encourage our state colleagues to consider alternative sources of such information at the state level. There may well come a time in the relatively near future when we conclude that there is no ongoing federal need to maintain these requirements at the federal level. We seek comment on these tentative views.

209. In addition to addressing the questions previously raised in the Phase 3 *Notice*, we ask commenters to consider whether any of these accounting and reporting requirements should sunset by a date certain, such as three or five years in the future. In particular, should we sunset the remaining Class A accounts by a date certain? Should we maintain our practice of imposing different accounting requirements on classes of carriers based on their size? If so, and we allow Class A carriers to shift to Class B accounting, are there additional accounts that should be eliminated from the Class B system for small and mid-sized carriers by a date certain? Should the requirement to maintain either Class A or Class B accounts be replaced with a rule requiring adherence to generally accepted accounting principles (GAAP)? Should any or all of our ARMIS reporting requirements sunset by a date certain? We encourage commenters to discuss the implications of any accounting reforms they recommend on the appropriate scope of ARMIS reporting obligations. To the extent commenters argue that certain Part 32 or Part 64 rules, or reporting requirements imposed pursuant to 47 U.S.C. § 43.21, should not sunset by a date certain, they should identify with specificity which rules should remain in place and provide a full analysis of the justification for that rule, on a rule-by-rule basis.

210. What would be the advantages and disadvantages of adopting any of these sunset approaches, as opposed to concluding that requirements should be eliminated only upon the attainment of certain indices associated with the development of a competitive marketplace? For example, if we were to eliminate Class A accounts or shift to a policy of relying on GAAP, could we develop accurate inputs for our universal service cost model by relying on specific, ad hoc data requests?³⁹⁰ Moreover, what impact would elimination by a date certain of accounting and reporting rules have on attainment of statutory goals, such as the preservation and advancement of universal service and ensuring that pole attachment rates are just and reasonable? Could we satisfy other federal regulatory needs by making data requests on an as-needed basis and relying on other existing data collection mechanisms, such as the *Local Competition and Broadband Data Gathering Program*? If we ultimately decide not to sunset certain rules, but instead eliminate those rules only upon attainment of certain indices associated with competition, what costs would be imposed on both regulators and the industry by future administrative proceedings to determine whether those triggers have been met, particularly if proceedings were undertaken on a carrier-by-carrier basis?

211. We also seek comment from state commissions and all other interested parties on whether ARMIS information (particularly infrastructure data) would be better captured through the *Local Competition and Broadband Data Gathering Program* rather than in ARMIS, as discussed above in paragraphs 162, 169, and 177. This program seeks to develop the Commission's understanding of the deployment and availability of broadband services and the development of local telephone service competition in order to comply with section 706 of the

³⁹⁰ We intend to initiate a proceeding in the near future to examine how often and to what extent the high-cost model inputs should be revised and updated. To the extent that the data necessary to generate inputs used for the universal service high-cost model may be provided through other means than ARMIS, we intend to consider such alternatives in that proceeding. To the extent we conclude in that proceeding that certain inputs should be eliminated or modified, we would consider the need for corresponding revisions to our accounting and reporting requirements.

1996 Act.³⁹¹ The *Local Competition and Broadband Data Gathering Program* was established for a five-year period, unless the Commission acts to extend it. We seek comment on the costs and benefits associated with collecting infrastructure information through the *Local Competition and Broadband Data Gathering Program* for all affected parties, including potential filers and federal, state, and local regulators. In particular, we seek comment on whether information currently collected in ARMIS 43-07 should instead be collected through the *Local Competition and Broadband Data Gathering Program*, which imposes a reporting obligation on a larger universe of carriers. In addition, we seek comment on collecting such data through the *Local Competition and Broadband Data Gathering Program*, but requiring only the mandatory price cap companies to report. We also seek comment on whether we should require all filers in the *Local Competition and Broadband Data Gathering Program* to report information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Lastly, we seek comment on whether to gather information on new technologies that indicate how carriers are upgrading the public switched network, e.g., information for switches capable of transmitting ATM protocol, and data on SMDS, internet routers, and frame relay service, through our *Local Competition and Broadband Data Gathering Program*.

212. In addition, we seek comment on eliminating our rules for continuing property records (CPR), specifically section 32.2000(e) and (f).³⁹² As discussed in the foregoing order, our CPR rules largely serve the interests of state regulators.³⁹³ States assert that they have an ongoing need for this information in order to support state ratemaking proceedings. We seek comment on whether there are alternative avenues for states to gather whatever information pertaining to property records they need for state regulatory proceedings. Incumbent LECs are subject to a number of other regulatory constraints and appear to have ample incentives to maintain a detailed inventory of their property.³⁹⁴ Moreover, the record shows that our detailed requirements, which include rigid rules for recording property, impose substantial burdens on incumbent LECs.³⁹⁵ In light of all these factors, we tentatively conclude that we should eliminate our detailed CPR rules in three years. We seek comment on this proposal. Commenters should address whether there are any federal or state regulatory needs served by our CPR rules that cannot be met through alternative mechanisms. We also seek further comment on the costs and burdens of maintaining these CPR rules. Additionally, commenters should address whether three years is too little or too much time for states that rely upon the existence of federal CPR rules to transition to alternative mechanisms. Commenters should include an analysis of the costs and benefits of maintaining the CPR rules for a different length of time.

213. We also seek comment on alternative approaches to streamline our CPR rules. In particular, in earlier comments in this proceeding, Verizon proposed that we should eliminate

³⁹¹ Various issues pertaining to the *Local Competition and Broadband Data Gathering Program*, such as confidentiality, are raised in a pending proceeding. See *Local Competition and Broadband Reporting*, CC Docket No. 99-301, *Second Notice of Proposed Rulemaking*, FCC 01-19 (rel. Jan. 19, 2001).

³⁹² 47 C.F.R. §§ 32.2000(e) and (f).

³⁹³ See paragraph 121.

³⁹⁴ For example, the Foreign Corrupt Practices Act requires companies to maintain adequate accounting records and devise and maintain an adequate system of internal accounting controls. See *Qwest* Oct. 3, 2001 *ex parte*.

³⁹⁵ Verizon Comments at 8.

most of our CPR requirements, but retain the requirement that property records be (1) subject to internal accounting controls; (2) auditable; (3) equal in the aggregate to the total investment reflected in the financial accounts; and (4) maintained for the life of the property.³⁹⁶ Moreover, Verizon suggested that CPR rules should provide that (1) records be maintained by original cost where appropriate, and otherwise, be maintained using averages or estimates; (2) average costs may be used for plant consisting of a large number of similar units, and units of similar size and type within each specified account may be grouped; and (3) in cases where the actual original cost of property cannot be ascertained, such as pricing for inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. In cases where estimates are used, any estimate shall be consistent with accounting practices in effect at the time the property was constructed. We seek comment on the advantages and disadvantages associated with this proposal.

214. Finally, we seek to refresh the record on our affiliate transactions rules. We note that these rules were created at a time when all incumbent LECs were subject to rate-of-return regulation.³⁹⁷ To what extent do these rules remain necessary for price cap carriers? Do price cap carriers that have obtained pricing flexibility, and have thus waived low-end formula adjustments, retain any incentive or ability to engage in improper cost-shifting or cross-subsidization? What impact, if any, would elimination of these rules for price cap carriers have on state ratemaking processes? What impact would there be on carriers if we elect to retain these rules?

215. Even if we eliminate some or all of our current affiliate-transactions rules for price-cap carriers, should we maintain those rules, or adopt revised rules, to govern transactions that are subject to section 272 of the Communications Act?³⁹⁸ Section 272(b)(2) requires that the affiliate required by that section maintain “books, records, and accounts in the manner prescribed by the Commission which shall be separate from the books, records, and accounts maintained by the Bell operating company of which it is an affiliate.”³⁹⁹ Section 272(b)(5) requires that the separate affiliate conduct all transactions with the Bell operating company “on an arm’s length basis.”⁴⁰⁰ The nondiscrimination requirement found in section 272(c) requires the BOC to “account for all transactions with an affiliate . . . in accordance with accounting principles designed by or approved by the Commission.”⁴⁰¹ Section 272(e)(4) specifies that the BOC may provide interLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.⁴⁰² What would be the advantages or disadvantages of applying one set of rules to transactions between BOCs and their section 272 affiliates and another set of rules (or no rules) to other transactions between incumbent LECs and other types of

³⁹⁶ *Id.*

³⁹⁷ Our affiliate transactions rules were adopted in 1987 to protect ratepayers of regulated telecommunications services from bearing the costs and risks associated with a carrier’s nonregulated activities. *See Joint Cost Order*. The Commission revised the affiliate transactions rules to implement the statutory prohibitions against cross-subsidization in the 1996 Act. *See Accounting Safeguards Order*; 47 C.F.R. § 32.27.

³⁹⁸ 47 U.S.C. § 272.

³⁹⁹ 47 U.S.C. § 272(b)(2).

⁴⁰⁰ 47 U.S.C. § 272(b)(5).

⁴⁰¹ 47 U.S.C. § 272(c).

⁴⁰² 47 U.S.C. § 272(e)(4).

affiliates? How would this be implemented in situations where an affiliate engages in some activities that are subject to section 272 and other activities that are not?

216. Even if we decline to make broad changes to our affiliate transactions rules, we may wish to adopt additional minor reforms along the lines of the those in the foregoing Phase II Report and Order. In particular, we seek further comment on the proposal of USTA and BellSouth to modify the centralized service exception to the affiliate transactions rules. That rule states that all services received by a carrier from an affiliate that exists solely to provide services to members of the carrier's corporate family shall be recorded at cost. For these types of affiliates, no fair market valuations are required. USTA and BellSouth have argued that this rule is too restrictive, imposes large costs on carriers to comply, and can cause an affiliate to lose its overall exemption from fair market valuation of all of its services if one service is provided outside of the corporate family.⁴⁰³ USTA and BellSouth argue that, rather than applying the exception on an affiliate-by-affiliate basis, the exception should be applied on a service-by-service basis. This would allow carriers to record services provided solely within the corporate family at fully distributed cost without fair market valuation, whether or not the affiliate also provided other services outside the corporate family.

217. We seek comment on a possible *de minimis* exception that would mitigate some of the harsh consequences of our current rules raised by BellSouth.⁴⁰⁴ We ask commenters to address whether the Commission should adopt a threshold of \$500,000 for services provided by an affiliate outside the corporate family. If the Commission adopted such a threshold, an affiliate could provide up to \$500,000 in services outside the corporate family without causing other services it provides solely to the corporate family to undergo fair market valuation. We also ask if there is a different appropriate dollar value threshold. Alternatively, we seek comment on whether the exception should be based on a percentage of transactional volume of the service. For example, if a service is provided outside the corporate family and the transactional volume amounts to only five or ten percent of all of the affiliate's services volume, should transactions within the corporate family remain exempt from the fair market valuation requirement? If the Commission adopts a percentage threshold, should that threshold be five percent, ten percent, or some other percentage?

B. Conforming Amendments to Part 36 Separations Rules (CC Docket No. 80-286)

218. The revisions to the Chart of Accounts described in this Report and Order affect our Part 36 jurisdictional separations rules in minor respects, as our Part 36 rules are defined in terms of existing accounts. Most of the Part 32 revisions in the attached Order consolidate Class A accounts to the Class B level. We tentatively conclude that the elimination of Class A summary accounts will require clarifying revisions to Part 36. For example, the elimination of Account 6110, Network support expense, from Class A accounting will require sections 36.310 and 36.311 of the Commission's rules to be revised to reflect Network support expenses as the sum of accounts 6112, 6113, and 6114. In contrast, Class B accounting will retain Account 6110. Therefore sections 36.310 and 36.311 will remain intact for Class B carriers, but must be revised to clarify that the use of Account 6110 is for Class B carriers only.⁴⁰⁵

⁴⁰³ See USTA Comments at 16-17; BellSouth Sept. 6, 2001 *ex parte* at 2.

⁴⁰⁴ See BellSouth Sept. 21, 2001 *ex parte*.

⁴⁰⁵ See 47 C.F.R. §§ 36.310-311. Other sections of Part 36 affected include those sections currently referring to the following accounts; 6120, 6210, 6230, 6310, 6410, 6510, 6530, 6610, and 7200. See 47

219. We also tentatively conclude that other changes to Part 36 are required as a result of the elimination of Accounts 2215, 3500, 3600, 5000, 5080, 5084, and 6710 from both Class A and Class B accounting.⁴⁰⁶ The Part 36 sections referencing these accounts will require revisions to reflect the respective accounts now utilized. We propose to revise, wherever necessary, those Part 36 sections affected by the revisions adopted in this Report and Order. We seek comment on these proposed conforming amendments.

220. As set forth above, we adopt subaccounts for five existing accounts: 2212, Digital electronic switching; 2232, Circuit equipment, 6212, Digital electronic switching expense; 6232, Circuit equipment expense; and 6620, Services. For now, these accounts will continue to be separated in accordance with current Part 36 rules, including the requirements of the *Separations Freeze Order*, and are subject to the conforming Part 36 amendments proposed in the preceding paragraph. We seek comment on whether the creation of subaccounts warrants any modification to the separations treatment of these accounts.

221. Commenters should also suggest any additional particular Part 36 rules that should be revised, how they should be revised, and which Part 32 modification in this Order forms the basis for each suggested revision. We also seek comment on interplay of the recent *Separations Freeze Order* with any suggested revisions.⁴⁰⁷

222. Finally, although we believe that the effect of the revisions to the Chart of Accounts will have merely ministerial impact on our Part 36 rules, we welcome input from the Federal-State Joint Board on Separations on these issues.⁴⁰⁸

V. PROCEDURAL ISSUES

A. Ex Parte Presentations

223. This is a permit but disclose rulemaking proceeding. Ex parte presentations are permitted, except during the Sunshine Agenda period, provided they are disclosed as provided in the Commission's rules. See generally 47 C.F.R. §§ 1.1202, 1.1203, and 1.1206.

B. Paperwork Reduction Act Analysis

224. *Final Paperwork Reduction Act Analysis.* The decision herein has been analyzed with respect to the Paperwork Reduction Act of 1995, Pub. L. 104-13, and found to impose new or modified recordkeeping requirements or burdens on the public. Implementation of these new

C.F.R. §§ 36.321, 331, 341, 351, 352, 353, 352, 371, 372, and 411. Elimination of these accounts from Class A accounting will require these Part 36 sections to be updated in accordance with the Class A accounting changes adopted in this Report and Order. The current Part 36 use of these accounts will remain for Class B carriers, however, revisions to Part 36 are required to reflect that these accounts are for Class B carriers only.

⁴⁰⁶ See 47 C.F.R. §§ 36.121, 124, 125, 201, 211, 212, 213, 501, and 505.

⁴⁰⁷ On May 22, 2001, the Commission adopted an interim freeze of the Part 36 category relationships and jurisdictional cost allocation factors for price cap carriers and allocation factors only for rate-of-return carriers. Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Report and Order*, FCC 01-162 (rel. May 22, 2001) (*Separations Freeze Order*).

⁴⁰⁸ Should commenters identify impacts that would require changes to Part 36 beyond merely ministerial revisions, we would refer such issues to the Joint Board for its consideration

or modified reporting or recordkeeping requirements will be subject to approval by the Office of Management and Budget (OMB) and will go into effect upon announcement in the Federal Register of OMB approval.

C. Regulatory Flexibility Act

225. As required by the Regulatory Flexibility Act (RFA),⁴⁰⁹ the Commission has prepared both a Final Regulatory Flexibility Analysis (FRFA) and an Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities by the policies and rules proposed in this Further Notice of Proposed Rulemaking and the rules adopted in this Report and Order. Both the FRFA and the IRFA are set forth in Appendix H. Written public comments are requested on the IRFA. These comments must be filed in accordance with the same filing deadlines for comments on the rest of this Further Notice of Proposed Rulemaking and they must have a separate and distinct heading, designating the comments as responses to the IRFA. The Consumer Information Bureau, Reference Information Center, will send a copy of this Report and Order and Further Notice of Proposed Rulemaking, including the FRFA and IRFA, to the Chief Counsel for Advocacy of the Small Business Administration.⁴¹⁰ In addition, the Report and Order and Further Notice of Proposed Rulemaking and FRFA and IRFA (or summaries thereof) will be published in the Federal Register.⁴¹¹

D. Comment Filing Procedures

226. Pursuant to sections 1.415 and 1.419 of the Commission's rules, 47 C.F.R. §§ 1.415, 1.419, interested parties may file comments on or before sixty days from date of publication in the Federal Register (for issue A) and thirty days from date of publication in the Federal Register (for issue B), and reply comments on or before ninety days from date of publication in the Federal Register (for issue A) and forty-five days from date of publication in the Federal Register (for issue B). Comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies.⁴¹²

227. Comments filed through the ECFS can be sent as an electronic file via the Internet to <<http://www.fcc.gov/e-file/ecfs.html>>. Generally, only one copy of an electronic submission must be filed. If multiple docket or rulemaking numbers appear in the caption of this proceeding, however, commenters must transmit one electronic copy of the comments to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get filing instructions for e-mail comments, commenters should send an e-mail to ecfs@fcc.gov, and should include the following words in the body of the message, "get form <your e-mail address.>" A sample form and directions will be sent in reply.

⁴⁰⁹ See 5 U.S.C. § 603. The RFA, *see* 5 U.S.C. § 601 *et seq.*, has been amended by the Contract With America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

⁴¹⁰ See 5 U.S.C. § 603(a).

⁴¹¹ *Id.* §§ 603(a), 604(b).

⁴¹² See Electronic Filing of Documents in Rulemaking Proceedings, 63 Fed. Reg. 24,121 (1998).

228. Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appear in the caption of this proceeding, commenters must submit two additional copies for each additional docket or rulemaking number. All filings must be sent to the Commission's Secretary, Magalie Roman Salas, Office of the Secretary, Federal Communications Commission, 445 12th Street, S.W., Washington, D.C. 20554.

229. Parties who choose to file by paper should also submit their comments on diskette. These diskettes should be submitted to: Ernestine Creech, Accounting Safeguards Division, 445 12th Street, S.W., Washington, D.C. 20554. Such a submission should be on a 3.5-inch diskette formatted in an IBM compatible format using Word or compatible software. The diskette should be accompanied by a cover letter and should be submitted in "read only" mode. The diskette should be clearly labeled with the commenter's name, proceeding (including the docket number, in this case CC Docket Nos. 00-199, 99-301, and 80-286, type of pleading (comment or reply comment), date of submission, and the name of the electronic file on the diskette. The label should also include the following phrase "Disk Copy - Not an Original." Each diskette should contain only one party's pleadings, preferably in a single electronic file. In addition, commenters must send diskette copies to the Commission's copy contractor, Qualex International, Portals II, 445 12th Street, SW, Room CY-B402, Washington, DC, 20554.

230. Written comments by the public on the proposed and/or modified information collections are due on or before thirty days after the date of publication in the Federal Register. Written comments must be submitted by the Office of Management and Budget (OMB) on the proposed and/or modified information collections on or before 60 days after date of publication in the Federal Register. In addition to filing comments with the Secretary, a copy of any comments on the information collections contained herein should be submitted to Judy Boley, Federal Communications Commission, Room 1-C804, 445 12th Street, S.W., Washington, DC 20554, or via the Internet to jboley@fcc.gov and to Edward Springer, OMB Desk Officer, 10236 NEOB, 725 - 17th Street, N.W., Washington, D.C. 20503.

VI. ORDERING CLAUSES

231. Accordingly, IT IS ORDERED that, pursuant to sections 1, 4, 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154, 201-205, 215, and 218-220, Parts 32 and 64 of the Commission's rules, 47 C.F.R. Parts 32 and 64, are amended as described above and in Appendix F below.

232. IT IS FURTHER ORDERED that, pursuant to section 220(g) of the Communications Act of 1934, as amended, 47 U.S.C. § 220(g), changes to our Part 32, System of Accounts, adopted in this Report and Order shall take effect six months after publication in the Federal Register following OMB approval, unless a notice is published in the Federal Register stating otherwise. We will, however, permit carriers to implement Part 32 accounting changes as of January 1, 2001.

233. IT IS FURTHER ORDERED that, pursuant to the authority contained in sections 4(i), 4(j), 11, 201(b), 303(r), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. sections 154(i), 154(j), 161, 201(b), 303(r), and 403, this Further Notice of Proposed Rulemaking in CC Docket Nos. 80-286, 99-301, and 00-199 IS ADOPTED.

234. IT IS FURTHER ORDERED that the proceeding in CC Docket No. 97-212 is TERMINATED.

235. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in sections 1, 4(i), 4(j), 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154(i), 154(j), 201-205, 215, and 218-220, that FCC Report 43-04, the Separations and Access Report IS REVISED, as set forth above and in Appendix G to this Report and Order, effective for filings due April 1, 2002.

236. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in sections 1, 4(i), 4(j), 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154(i), 154(j), 201-205, 215, and 218-220, that revisions to FCC Report 43-01, the Annual Summary Report; FCC Report 43-02, the USOA Report; FCC Report 43-03, the Joint Cost Report; FCC Report 43-07, the Infrastructure Report; and 43-08, the Operating Data Report as set forth above, shall be effective for filings due April 1, 2003.

237. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in section 0.291 of the Commission's rules, 47 C.F.R. § 0.291, that the Common Carrier Bureau IS DELEGATED authority to implement all changes to ARMIS reporting as above set forth.

238. IT IS FURTHER ORDERED that the Commission's Consumer Information Bureau, Reference Information Center, SHALL SEND a copy of this Report and Order and Further Notice of Proposed Rulemaking, including the two Regulatory Flexibility Analyses, to the Chief Counsel for Advocacy of the Small Business Administration.

FEDERAL COMMUNICATIONS COMMISSION



Magalie Roman Salas
Secretary

APPENDIX A – Parties Filing Comments and Reply Comments**Parties filing initial comments in CC Docket No. 00-199**

ALLTEL Communications Corporation (ALLTEL)
AT&T Corporation (AT&T)
BellSouth Corporation (BellSouth)
Cincinnati Bell Telephone Company (CBT)
Florida Public Service Commission (Florida)
General Services Administration (GSA)
Idaho Public Service Commission (Idaho)
Iowa Telecommunications Services, Inc. (Iowa Telecom)
Independent Telephone and Telecommunications Alliance (ITTA)
Maryland Public Service Commission (Maryland)
Montana Public Service Commission (Montana)
National Association of Regulatory Utility Commissioners (NARUC)
Nebraska Public Service Commission (Nebraska)
New York State Department of Public Service (New York)
North Carolina Utilities Commission – Public Staff (North Carolina Public Staff)
Ohio Consumers' Counsel and the National Association of State Utility Consumer Advocates (Ohio CC and NASUCA)
Public Utility Commission of Oregon (Oregon)
Qwest Corporation (Qwest)
Roseville Telephone Company (Roseville)
Rural Utilities Service (RUS)
Sprint Corporation (Sprint)
TDS Telecommunications Corporation (TDS)
United States Telecom Association (USTA)
Utah Public Service Commission and the Utah Division of Public Utilities (Utah)
Verizon Communications, Inc. (Verizon)
Washington Utilities and Transportation Commission (Washington)
Public Service Commission of Wisconsin (Wisconsin)
WorldCom, Inc. (WorldCom)
Wyoming Public Service Commission (Wyoming)

Parties filing reply comments in CC Docket No. 00-199

Regulatory Commission of Alaska (Alaska)
ALLTEL
Association for Local Telecommunications Services (ALTS)
AT&T
BellSouth
California Public Utilities Commission (California)
Federal-State Joint Board on Separations
GSA
Illinois Commerce Commission (Illinois)
ITTA
NARUC
National Cable Television Association (NCTA)

Ohio CC and NASUCA
Public Utilities Commission of Nevada (Nevada)
Qwest
Sprint
USTA
Verizon
Virginia State Corporation Commission (Virginia)
WorldCom
XO Communications, Inc. (XO Communications)

Parties filing comments to June 8 Public Notice

BellSouth
GSA
New York
Ohio Consumer's Counsel (Ohio CC)
Oregon
RUS
SBC Communications, Inc. (SBC)
Sprint
USTA
Verizon
Wisconsin
WorldCom

Parties filing reply comments to June 8 Public Notice

GSA
New Hampshire Public Utilities Commission (New Hampshire)
Ohio CC
Sprint
USTA
Verizon

Ex parte filings

ALTS and XO Communications, July 26, 2001
BellSouth, August 2, 2001
Washington, August 16, 2001
Illinois, August 24, 2001
Nebraska, August 27, 2001
South Dakota Public Utilities Commission, August 27, 2001 (South Dakota)
AT&T, August 29, 2001
New Mexico Public Regulation Commission, August 30, 2001 (New Mexico)
NCTA, August 31, 2001
North Dakota Public Service Commission, August 31, 2001 (North Dakota)
Utah, August 31, 2001
North Carolina Utilities Commission, September 4, 2001 (North Carolina)
NARUC, September 6, 2001
Florida, September 6, 2001
Maryland, September 7, 2001

New Hampshire, September 7, 2001
Qwest, September 10, 2001
Michigan Public Service Commission, September 14, 2001 (Michigan)
Indiana Utility Regulatory Commission, September 21, 2001 (Indiana)
NARUC, September 26, 2001
USTA, September 28, 2001
Kansas Corporation Commission, October 2, 2001 (Kansas)
California, October 2, 2001
Competitive Telecommunications Association, October 3, 2001 (CompTel)
Michigan, October 3, 2001
239. NASUCA, October 4, 2001
NARUC, October 4, 2001

APPENDIX B – List of eliminated Class A accounts

| | | | |
|--------|--|------|--|
| 1130 | Cash | 4020 | Notes payable |
| 1140 | Special cash deposits | 4030 | Advance billing and payments |
| 1150 | Working cash advances | 4050 | Current maturities—long-term debt |
| 1160 | Temporary investments | 4060 | Current maturities—capital leases |
| 1180 | Telecommunications accounts receivable | 4120 | Other accrued liabilities |
| 1181 | Accounts receivable allowance—telecommunications | 4210 | Funded debt |
| 1190 | Other accounts receivable | 4220 | Premium on long-term debt |
| 1191 | Accounts receivable allowance—other | 4230 | Discount on long-term debt |
| 1200 | Notes receivable | 4240 | Reacquired debt |
| 1201 | Notes receivable allowance | 4250 | Obligations under capital leases |
| 1210 | Interest and dividends receivable | 4260 | Advances from affiliated companies |
| 1290 | Prepaid rents | 4270 | Other long-term debt |
| 1300 | Prepaid taxes | 4310 | Other long-term liabilities |
| 1310 | Prepaid insurance | 4360 | Other deferred credits |
| 1320 | Prepaid directory expenses | 5000 | Basic local service revenue |
| 1330 | Other prepayments | 5002 | Optional extended area revenue |
| 1401 | Investment in affiliated companies | 5003 | Cellular mobile revenue |
| 1402 | Investments in nonaffiliated companies | 5004 | Other mobile services revenue |
| 1406.1 | Permanent investment | 5050 | Customer premises revenue |
| 1406.2 | Receivable/payable | 5069 | Other local exchange revenue settlements |
| 1406.3 | Current net income or loss | 5080 | Network access revenue |
| 1407 | Unamortized debt issuance expense | 5084 | State access revenue |
| 1408 | Sinking funds | 5110 | Unidirectional long distance revenue |
| 1437 | Deferred tax regulatory asset | 5111 | Long distance inward-only revenue |
| 1439 | Deferred charges | 5112 | Long distance outward-only revenue |
| 2123.1 | Office support equipment | 5120 | Long distance private network revenue |
| 2123.2 | Company communications equipment | 5121 | Subvoice grade long distance private network revenue |
| 2215 | Electro-mechanical switching | 5122 | Voice grade long distance private network revenue |
| | Step-by-step switching | 5123 | Audio program grade long distance private network revenue |
| | Crossbar switching | 5124 | Video program grade long distance private network revenue |
| | Other electro-mechanical switching | 5125 | Digital transmission long distance private network revenue |
| 2231.1 | Satellite and earth station facilities | 5126 | Long distance private network switching revenue |
| 2231.2 | Other radio facilities | 5128 | Other long distance private network revenue |
| 2425 | Deep sea cable | 5129 | Other long distance private network revenue settlements |
| | Nonmetallic cable | 5160 | Other long distance revenue |
| | Metallic cable | 5169 | Other long distance revenue settlements |
| 3420 | Accumulated amortization—leasehold improvement | | |
| 3500 | Accumulated amortization—intangible | | |
| 3600 | Accumulated amortization—other | | |
| 4010 | Accounts payable | | |

| | | | |
|--------|---|------|--|
| 5230 | Directory revenue | 6725 | Legal |
| 5240 | Rent revenue | 6726 | Procurement |
| 5250 | Corporate operations revenue | 6727 | Research and development |
| 5260 | Miscellaneous revenue | 6728 | Other general and administrative |
| 5261 | Special billing arrangements revenue | 7110 | Income from custom work |
| 5262 | Customer operations revenue | 7130 | Return from nonregulated use of regulated facilities |
| 5263 | Plant operations revenue | 7140 | Gains and losses from foreign exchange |
| 5264 | Other incidental regulated revenue | 7150 | Gains and losses from the disposition of land and artworks |
| 5269 | Other revenue settlements | 7160 | Other operating gains and losses |
| 5270 | Carrier billing and collection revenue | 7200 | Operating taxes |
| 5301 | Uncollectible revenue-telecom | 7310 | Dividend income |
| 5302 | Uncollectible revenue-other | 7320 | Interest income |
| 6110 | Network support expense | 7330 | Income from sinking and other funds |
| 6120 | General support expenses | 7340 | Allowance for funds used during construction |
| 6210 | Central office switching expenses | 7350 | Gains and losses from the disposition of certain property |
| 6215 | Electro-mechanical expense | 7360 | Other nonoperating income |
| | Step-by-step switching | 7370 | Special charges |
| | Crossbar switching | 7410 | Nonoperating Investment tax credit—net |
| | Other electro-mechanical switching | 7420 | Nonoperating federal income taxes |
| 6230 | Central office transmission expense | 7430 | Nonoperating state and local income taxes |
| 6231.1 | Satellite and earth station facilities | 7440 | Nonoperating other taxes |
| 6231.2 | Other radio facilities | 7450 | Provision for deferred nonoperating income taxes—net |
| 6310 | Information origination/termination expense | 7510 | Interest on funded debt |
| 6410 | Cable and wire facilities expense | 7520 | Interest expense—capital leases |
| 6425 | Deep sea cable expense | 7530 | Amortization of debt issuance expense |
| | Nonmetallic cable | 7540 | Other interest deductions |
| | Metallic cable | 7610 | Extraordinary income credits |
| 6510 | Other property, plant and equipment expenses | 7620 | Extraordinary income charges |
| 6530 | Network operations expenses | 7630 | Current income tax effect of extraordinary items—net |
| 6561 | Depreciation expense— Telecommunications plant in service | 7640 | Provision for deferred income tax effect of extraordinary items—net |
| 6562 | Depreciation expense—property held for future telecommunications use | | |
| 6563 | Amortization expense—tangible | | |
| 6564 | Amortization expense—intangible | | |
| 6565 | Amortization expense—other | | |
| 6610 | Marketing | | |
| 6612 | Sales | | |
| 6621 | Call completion services | | |
| 6622 | Number services | | |
| 6623 | Customer services | | |
| 6710 | Executive and planning | | |
| 6711 | Executive | | |
| 6712 | Planning | | |
| 6721 | Accounting and finance | | |
| 6722 | External relations | | |
| 6723 | Human resources | | |
| 6724 | Information management | | |

APPENDIX C – Revised list of Class A accounts

| | |
|--|---|
| 1120 Cash and equivalents | 2351 Public telephone terminal equipment |
| 1170 Receivables | 2362 Other terminal equipment |
| 1171 Allowance for doubtful accounts | 2411 Poles |
| 1220 Inventories | 2421 Aerial cable |
| 1220.1 Materials and supplies | Nonmetallic |
| 1220.2 Property held for sale or lease | Metallic |
| 1280 Prepayments | 2422 Underground cable |
| 1350 Other current assets | Nonmetallic |
| 1406 Nonregulated investments | Metallic |
| 1410 Other noncurrent assets | 2423 Buried cable |
| 1438 Deferred maintenance, retirements, and other deferred charges | Nonmetallic |
| 1500 Other jurisdictional assets – net | Metallic |
| 2001 Telecommunications plant in service | 2424 Submarine and deep sea cable |
| 2002 Property held for future telecommunications use | Nonmetallic |
| 2003 Telecommunications plant under construction | Metallic |
| 2005 Telecommunications plant adjustment | 2426 Intrabuilding network cable |
| 2006 Nonoperating plant | Nonmetallic |
| 2007 Goodwill | Metallic |
| 2111 Land | 2431 Aerial wire |
| 2112 Motor vehicles | 2441 Conduit systems |
| 2113 Aircraft | 2681 Capital leases |
| 2114 Tools and other work equipment | 2682 Leasehold improvements |
| 2121 Buildings | 2690 Intangibles |
| 2122 Furniture | Network software |
| 2123 Office equipment | General purpose computer software |
| 2124 General purpose computers | 3100 Accumulated depreciation |
| 2211 Non-digital switching | 3200 Accumulated depreciation--held for future telecommunications use |
| 2212 Digital electronic switching | 3300 Accumulated depreciation nonoperating |
| 2212.1 Circuit | 3410 Accumulated amortization—capitalized |
| 2212.2 Packet | leases |
| 2220 Operator systems | 4000 Current accounts and notes payable |
| 2231 Radio systems | 4040 Customers' deposits |
| 2232 Circuit equipment | 4070 Income taxes--accrued |
| 2232.1 Electronic | 4080 Other taxes--accrued |
| 2232.2 Optical | 4100 Net current deferred operating income |
| 2311 Station apparatus | taxes |
| 2321 Customer premises wiring | |
| 2341 Large private branch exchanges | |

| | |
|--|--|
| 4110 Net current deferred nonoperating income | 6121 Land and building expenses |
| taxes | 6122 Furniture and artworks expense |
| 4130 Other current liabilities | 6123 Office equipment expense |
| 4200 Long term debt and funded debt | 6124 General purpose computers expense |
| 4300 Other long term liabilities and deferred | 6211 Non-digital switching expense |
| credits | 6212 Digital electronic switching expense |
| 4320 Unamortized operating investment tax | 6212.1 Circuit |
| credits--net | 6212.2 Packet |
| 4330 Unamortized nonoperating investment tax | 6220 Operator systems expense |
| credits--net | 6231 Radio systems expense |
| 4340 Net noncurrent deferred operating income | 6232 Circuit equipment expense |
| taxes | 6232.1 Electronic |
| 4341 Net deferred tax liability adjustments | 6232.2 Optical |
| 4350 Net noncurrent deferred nonoperating | 6311 Station apparatus expense |
| income taxes | 6341 Large private branch exchange expense |
| 4361 Deferred tax regulatory adjustments--net | 6351 Public telephone terminal equipment expense |
| 4370 Other jurisdictional liabilities and deferred | 6362 Other terminal equipment expense |
| credits--net | 6411 Poles expense |
| 4510 Capital stock | 6421 Aerial cable expense |
| 4520 Additional paid-in capital | Nonmetallic |
| 4530 Treasury stock | Metallic |
| 4540 Other capital | 6422 Underground cable expense |
| 4550 Retained earnings | Nonmetallic |
| 5001 Basic area revenue | Metallic |
| 5040 Private line revenue | 6423 Buried cable expense |
| 5060 Other basic area revenue | Nonmetallic |
| 5081 End user revenue | Metallic |
| 5082 Switched access revenue | 6424 Submarine and deep sea cable expense |
| 5083 Special access revenue | Nonmetallic |
| 5105 Long distance message revenue | Metallic |
| 5200 Miscellaneous revenue | 6426 Intrabuilding network cable expense |
| 5280 Nonregulated operating revenue | Nonmetallic |
| 5300 Uncollectible revenue | Metallic |
| 6112 Motor vehicle expense | 6431 Aerial wire expense |
| 6113 Aircraft expense | 6441 Conduit systems expense |
| 6114 Tools and other work equipment expense | 6511 Property held for future telecommunications use expense |
| | 6512 Provisioning expense |
| | 6531 Power expense |

6532 Network administration expense
6533 Testing expense
6534 Plant operations administration
expense
6535 Engineering expense
6540 Access expense
6560 Depreciation and amortization
expenses
6611 Product management and sales
6613 Product advertising
6620 Services
 6620.1 Wholesale
 6620.2 Retail
6720 General and administrative
6790 Provision for uncollectible notes
 receivable
7100 Other operating income and
expenses
7210 Operating investment tax credits –
net
7220 Operating Federal income taxes
7230 Operating state and local income
taxes
7240 Operating other taxes
7250 Provision for deferred operating
income
 taxes – net
7300 Nonoperating income and expense
7400 Nonoperating taxes
7500 Interest and related items
7600 Extraordinary items
7910 Income effect of jurisdictional
ratemaking
 differences – net
7990 Nonregulated net income

APPENDIX D – Revised list of Class B accounts

| | |
|--------------------------------------|---|
| 1120 Cash and equivalents | 4080 Other taxes—accrued |
| 1170 Receivables | 4100 Net current deferred operating |
| 1171 Allowance for doubtful accounts | income |
| 1220 Inventories | taxes |
| 1220.1 Materials and supplies | 4110 Net current deferred nonoperating |
| 1220.2 Property held for sale or | income |
| lease | taxes |
| 1280 Prepayments | 4130 Other current liabilities |
| 1350 Other current assets | 4200 Long term debt and funded debt |
| 1406 Nonregulated investments | 4300 Other long term liabilities and |
| 1410 Other noncurrent assets | deferred |
| 1438 Deferred maintenance and | credits |
| retirements | 4320 Unamortized operating investment |
| 1500 Other jurisdictional assets—net | tax |
| 2001 Telecommunications plant in | credits—net |
| service | 4330 Unamortized nonoperating |
| 2002 Property held for future | investment tax |
| telecommunications use | credits—net |
| 2003 Telecommunications plant under | 4340 Net noncurrent deferred operating |
| construction | income |
| 2005 Telecommunications plant | taxes |
| adjustment | 4341 Net deferred tax liability |
| 2006 Nonoperating plant | adjustments |
| 2007 Goodwill | 4350 Net noncurrent deferred |
| 2110 Land and support assets | nonoperating |
| 2210 Central office switching | income taxes |
| 2220 Operator systems | 4361 Deferred tax regulatory |
| 2230 Central office—transmission | adjustments—net |
| 2310 Information | 4370 Other jurisdictional liabilities and |
| origination/termination | deferred |
| 2410 Cable and wire facilities | credits—net |
| 2680 Amortizable tangible assets | 4510 Capital stock |
| 2690 Intangibles | 4520 Additional paid-in capital |
| 3100 Accumulated depreciation | 4530 Treasury stock |
| 3200 Accumulated depreciation--held | 4540 Other capital |
| for future | 4550 Retained earnings |
| telecommunications use | 5000 Basic local service revenue |
| 3300 Accumulated depreciation— | 5081 End user revenue |
| nonoperating | 5082 Switched access revenue |
| 3410 Accumulated | 5083 Special access revenue |
| amortization—capitalized | 5105 Long distance message revenue |
| leases | 5200 Miscellaneous revenue |
| 4000 Current accounts and notes | 5280 Nonregulated operating revenue |
| payable | 5300 Uncollectible revenue |
| 4040 Customers' deposits | 6110 Network support expense |
| 4070 Income taxes—accrued | |

| | |
|---|---|
| 6120 General support expenses | 6620 Services |
| 6210 Central office switching expenses | 6720 General and administrative |
| 6220 Operator systems expense | 6790 Provision for uncollectible notes receivable |
| 6230 Central office transmission expense | 7100 Other operating income and expenses |
| 6310 Information origination/termination expense | 7200 Operating taxes |
| 6410 Cable and wire facilities expenses | 7300 Nonoperating income and expense |
| 6510 Other property, plant and equipment expenses | 7400 Nonoperating taxes |
| 6530 Network operations expenses | 7500 Interest and related items |
| 6540 Access expense | 7600 Extraordinary items |
| 6560 Depreciation and amortization expenses | 7910 Income effect of jurisdictional ratemaking differences-net |
| 6610 Marketing | 7990 Nonregulated net income |

APPENDIX E – Data for High-Cost Model Inputs Purposes

2111 Land
2112 Motor vehicles
2113 Aircraft
2114 Tools and other work equipment
2121 Buildings
2122 Furniture
2123 Office equipment
2124 General purpose computers

2212 Digital electronic switching
2220 Operator systems
2232 Circuit equipment
2362 Other terminal equipment

2411 Poles
2421 Aerial cable
 Nonmetallic
 Metallic
2422 Underground cable
 Nonmetallic
 Metallic
2423 Buried cable
 Nonmetallic
 Metallic
2426 Intrabuilding network cable
 Nonmetallic
 Metallic
2441 Conduit systems

6112 Motor vehicle expense
6113 Aircraft expense
6114 Tools and other work equipment expense
6121 Land and building expenses
6122 Furniture and artworks expense
6123 Office equipment expense
6124 General purpose computers expense

6212 Digital electronic switching expense
6232 Circuit equipment expense

6411 Poles expense
6421 Aerial cable expense
 Nonmetallic

APPENDIX F – FINAL RULES

Part 32 of title 47 of the C.F.R. is amended as follows:

PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

The authority citation for part 32 continues to read as follows:

Authority: 47 U.S.C. 154(I), and 154(j) and 220 as amended, unless otherwise noted.

Table of Contents, Part 32—Uniform System of Accounts for Telecommunications Companies is revised to read as follows:

**PART 32—UNIFORM SYSTEM OF
ACCOUNTS FOR
TELECOMMUNICATIONS COMPANIES**

Subpart A—Preface

Sec.

- 32.1 Background.
- 32.2 Basis of the accounts.
- 32.3 Authority
- 32.4 Communications Act.

Subpart B—General Instructions

- 32.11 Classification of companies.
- 32.12 Records.
- 32.13 Accounts—general.
- 32.14 Regulated accounts.
- 32.15 [Reserved]
- 32.16 Changes in accounting standards.
- 32.17 Interpretation of accounts.
- 32.18 Waivers.
- 32.19 Address for reports and correspondence.
- 32.20 Numbering convention.
- 32.21 Sequence of accounts.
- 32.22 Comprehensive interperiod tax allocation.
- 32.23 Nonregulated activities.
- 32.24 Compensated absences.
- 32.25 Unusual items and contingent liabilities.
- 32.26 Materiality.
- 32.27 Transactions with affiliates.

**Subpart C—Instructions for Balance
Sheet Accounts**

- 32.101 Structure of the balance sheet accounts.

- 32.102 Nonregulated investments.
- 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.
- 32.1120 Cash and equivalents.
- 32.1170 Receivables.
- 32.1171 Allowance for doubtful accounts.
- 32.1220 Inventories.
- 32.1280 Prepayments.
- 32.1350 Other current assets.
- 32.1406 Nonregulated investments.
- 32.1410 Other noncurrent assets.
- 32.1438 Deferred maintenance and retirements.
- 32.1500 Other jurisdictional assets – net.
- 32.2000 Instructions for telecommunications plant accounts.
- 32.2001 Telecommunications plant in service.
- 32.2002 Property held for future telecommunications use.
- 32.2003 Telecommunications plant under construction.
- 32.2005 Telecommunications plant adjustment
- 32.2006 Nonoperating plant
- 32.2007 Goodwill.
- 32.2110 Land and support assets.
- 32.2111 Land.
- 32.2112 Motor vehicles.
- 32.2113 Aircraft.
- 32.2114 Tools and other work equipment.
- 32.2121 Buildings.
- 32.2122 Furniture.
- 32.2123 Office equipment.
- 32.2124 General purpose computers.
- 32.2210 Central office switching.
- 32.2211 Non-digital switching.
- 32.2212 Digital electronic switching.
- 32.2220 Operator systems.
- 32.2230 Central office—transmission.

32.2231 Radio systems.
 32.2232 Circuit equipment
 32.2310 Information origination/termination.
 32.2311 Station apparatus.
 32.2321 Customer premises wiring.
 32.2341 Large private branch exchanges.
 32.2351 Public telephone terminal equipment
 32.2362 Other terminal equipment
 32.2410 Cable and wire facilities.
 32.2411 Poles.
 32.2421 Aerial cable.
 32.2422 Underground cable.
 32.2423 Buried cable.
 32.2424 Submarine and deep sea cable.
 32.2426 Intrabuilding network cable.
 32.2431 Aerial wire.
 32.2441 Conduit systems.
 32.2680 Amortizable tangible assets.
 32.2681 Capital leases.
 32.2682 Leasehold improvements.
 32.2690 Intangibles.
 32.3000 Instructions for balance sheet
 accounts—Depreciation and
 amortization.
 32.3100 Accumulated depreciation.
 32.3200 Accumulated depreciation--held for
 future telecommunications use.
 32.3300 Accumulated depreciation
 nonoperating.
 32.3410 Accumulated amortization—capitalized
 leases.
 32.3999 Instructions for balance sheet
 accounts—liabilities and stockholders'
 equity.
 32.4000 Current accounts and notes payable.
 32.4040 Customers' deposits.
 32.4070 Income taxes—accrued.
 32.4080 Other taxes—accrued.
 32.4100 Net current deferred operating income
 taxes.
 32.4110 Net current deferred nonoperating
 income taxes.
 32.4130 Other current liabilities
 32.4200 Long term debt and funded debt
 32.4300 Other long term liabilities and deferred
 credits.
 32.4320 Unamortized operating investment tax
 credits—net.
 32.4330 Unamortized nonoperating investment
 tax credits—net.
 32.4340 Net noncurrent deferred operating
 income taxes.
 32.4341 Net deferred tax liability adjustments.
 32.4350 Net noncurrent deferred nonoperating
 income taxes.
 32.4361 Deferred tax regulatory adjustments—

net.
 32.4370 Other jurisdictional liabilities and
 deferred credits—net.
 32.4510 Capital stock.
 32.4520 Additional paid-in capital.
 32.4530 Treasury stock.
 32.4540 Other capital.
 32.4550 Retained earnings.

Subpart D—Instructions for Revenue Accounts

32.4999 General.
 32.5000 Basic local service revenue.
 32.5001 Basic area revenue.
 32.5040 Private line revenue.
 32.5060 Other basic area revenue.
 32.5081 End user revenue.
 32.5082 Switched access revenue.
 32.5083 Special access revenue.
 32.5105 Long distance message revenue.
 32.5200 Miscellaneous revenue.
 32.5280 Nonregulated operating revenue.
 32.5300 Uncollectible revenue.

Subpart E—Instructions for Expense Accounts

32.5999 General.
 32.6110 Network support expense.
 32.6112 Motor vehicle expense.
 32.6113 Aircraft expense.
 32.6114 Tools and other work equipment
 expense.
 32.6120 General support expenses.
 32.6121 Land and building expenses.
 32.6122 Furniture and artworks expense.
 32.6123 Office equipment expense.
 32.6124 General purpose computers expense.
 32.6210 Central office switching expenses.
 32.6211 Non-digital switching expense.
 32.6212 Digital electronic switching expense.
 32.6220 Operator systems expense.
 32.6230 Central office transmission expense.
 32.6231 Radio systems expense.
 32.6232 Circuit equipment expense.
 32.6310 Information origination/termination
 expense.
 32.6311 Station apparatus expense.
 32.6341 Large private branch exchange
 expense.
 32.6351 Public telephone terminal equipment
 expense.
 32.6362 Other terminal equipment expense.
 32.6410 Cable and wire facilities expenses.

32.6411 Poles expense.
 32.6421 Aerial cable expense.
 32.6422 Underground cable expense.
 32.6423 Buried cable expense.
 32.6424 Submarine and deep sea cable expense.
 32.6426 Intrabuilding network cable expense.
 32.6431 Aerial wire expense.
 32.6441 Conduit systems expense.
 32.6510 Other property, plant and equipment expenses.
 32.6511 Property held for future telecommunications use expense.
 32.6512 Provisioning expense.
 32.6530 Network operations expenses.
 32.6531 Power expense.
 32.6532 Network administration expense.
 32.6533 Testing expense.
 32.6534 Plant operations administration expense.
 32.6535 Engineering expense.
 32.6540 Access expense.
 32.6560 Depreciation and amortization expenses.
 32.6610 Marketing.
 32.6611 Product management and sales
 32.6613 Product advertising
 32.6620 Services.
 32.6720 General and administrative.
 32.6790 Provision for uncollectible notes receivable.

Subpart F—Instructions for Other Income Accounts

32.6999 General.
 32.7099 Content of accounts.
 32.7100 Other operating income and expenses.
 32.7199 Content of accounts.
 32.7200 Operating taxes.
 32.7210 Operating investment tax credits – net.
 32.7220 Operating Federal income taxes.
 32.7230 Operating state and local income taxes.
 32.7240 Operating other taxes.
 32.7250 Provision for deferred operating income taxes – net.
 32.7299 Content of accounts.
 32.7300 Nonoperating income and expense.
 32.7399 Content of accounts.
 32.7400 Nonoperating taxes.
 32.7499 Content of accounts.
 32.7500 Interest and related items.
 32.7599 Content of accounts.
 32.7600 Extraordinary items.
 32.7899 Content of accounts.
 32.7910 Income effect of jurisdictional ratemaking differences – net.
 32.7990 Nonregulated net income.

Subpart G—Glossary

32.9000 Glossary of terms.

Section 32.11 Classification of companies is revised to read as follows:

§ 32.11 Classification of Companies.

(a) For purposes of this section, the term “company” or “companies” means incumbent local exchange carrier(s) as defined in section 251(h) of the Communications Act, and any other carriers that the Commission designates by Order.

(b) For accounting purposes, companies are divided into classes as follows:

(1) Class A. Companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.

(2) Class B. Companies having annual revenues from regulated telecommunications operations that are less than the indexed revenue threshold.

(c) Class A companies, except mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all the accounts of this system of accounts which are

applicable to their affairs and are designated as Class A accounts. Class A companies, which include mid-sized incumbent local exchange carriers, shall keep Basic Property Records in compliance with the requirements of §§ 32.2000(e) and (f) of this part.

(d) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all accounts of this system of accounts which are applicable to their affairs and are designated as Class B accounts. Mid-sized incumbent local exchange carriers shall also maintain subsidiary record categories necessary to provide the pole attachment data currently provided in the Class A accounts. Class B companies shall keep Continuing Property Records in compliance with the requirements of §§ 32.2000(e)(7)(A) and 32.2000(f) of this part.

(e) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000 of this part, that desire more detailed accounting may adopt the accounts prescribed for Class A companies upon the submission of a written notification to the Commission.

(f) The classification of a company shall be determined at the start of the calendar year following the first time its annual operating revenue from regulated telecommunications operations equals, exceeds, or falls below the indexed revenue threshold.

Section 32.13 Accounts—general is amended by deleting paragraph (a)(1) and redesignating paragraphs (a)(2) and (a)(3) as (a)(1) and (a)(2).

Section 32.14 Regulated accounts is amended by revising paragraph (e) to read as follows:

§32.14 Regulated accounts.

* * * * *

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telephone companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in Account 5200, Miscellaneous revenue.

* * * * *

Section 32.16 Changes in accounting standard is amended by revising paragraph (a) to read as follows:

§ 32.16 Changes in accounting standard.

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. The change in an accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Any change adopted shall be disclosed in annual reports required by § 43.21(f) in the year of adoption.

* * * * *

Section 32.24 Compensated absences is amended by revising paragraph (b) to read as follows:

§32.24 Compensated absences.

* * * * *

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this part, the liability shall be recorded in Account 4130, Other current liabilities, with a corresponding entry to Account 1438, Deferred maintenance, retirements and other deferred charges. This deferred charge shall be amortized on a straight-line basis over a period of ten years.

* * * * *

Section 32.27 Transactions with affiliates is revised to read as follows:

§32.27 Transactions with affiliates.

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred

to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.

(1) *Floor.* When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed \$500,000, the asset(s) shall be recorded at net book cost.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost.

(1) *Floor.* When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

Section 32.101 Structure of the balance sheet accounts is revised to read as follows:

§32.101 Structure of the balance sheet accounts.

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and equivalents, through Account 1500, Other jurisdictional assets--net, shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications plant in service, through Account 2007, Goodwill, shall include the regulated-fixed assets.

Account 3100, Accumulated depreciation through Account 3410, Accumulated amortization—capitalized leases, shall include the asset reserves except that reserves related to certain asset accounts will be included in the asset account. (See §§ 32.2005, 32.2682 and 32.2690.)

Account 4000, Current accounts and notes payable, through Account 4550, Retained earnings, shall include all liabilities and stockholders equity.

Section 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained is revised as follows:

§ 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.

BALANCE SHEET ACCOUNTS

| Account Title | Class A account | Class B account |
|--|-----------------|-----------------|
| Current Assets | | |
| Cash and equivalents | 1120 | 1120 |
| Receivables | 1170 | 1170 |
| Allowance for doubtful accounts | 1171 | 1171 |
| Supplies: | | |
| Material and supplies | 1220 | 1220 |
| Prepayments | 1280 | 1280 |
| Other current assets | 1350 | 1350 |
| Noncurrent Assets | | |
| Investments: | | |
| Nonregulated investments | 1406 | 1406 |
| Other noncurrent assets | 1410 | 1410 |
| Deferred charges: | | |
| Deferred maintenance, retirements and other deferred charges | 1438 | 1438 |
| Other: | | |
| Other jurisdictional assets-net | 1500 | 1500 |

Section 32.1120 Cash and equivalents is revised to read as follows:

§ 32.1120 Cash and equivalents.

(a) This account shall include the amount of current funds available for use on demand in the hands of financial officers and agents, deposited in banks or other financial institutions and also funds in transit for which agents have received credit.

(b) This account shall include the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due one year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within one year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished.

(c) Cash on special deposit to be held for more than one year from the date of deposit shall be included in Account 1410, Other noncurrent assets.

(d) This account shall include the amount of cash advanced to officers, agents, employees, and others as petty cash or working funds from which expenditures are to be made and accounted for.

(e) This account shall include the cost of current securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character.

(f) Accumulated changes in the net unrealized losses of current marketable equity securities shall be included in the determination of net income in the period in which they occur in Account 7300, Other Nonoperating Income and Expense.

(g) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts of temporary investments that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1130 Cash is deleted.

Section 32.1140 Special cash deposits is deleted.

Section 32.1150 Working cash advances is deleted.

Section 32.1160 Temporary investments is deleted.

Section 32.1170 Receivables is added to read as follows:

§ 32.1170 Receivables.

(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis:

(1) Amounts due from customers who are receiving telecommunications service.

(2) Amounts due from customers who are not receiving service and whose accounts are in process of collection.

(b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded.

(c) Cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue.

(d) Amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned.

(e) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds.

(f) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investment.

(g) This account shall include all amounts currently due, and not provided for in (a)-(g) above such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts. If any of these items are not to be paid currently, they shall be transferred to Account 1410, Other noncurrent assets.

(h) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1171 Allowance for doubtful accounts is added to read as follows:

§ 32.1171 Allowance for doubtful accounts.

(a) This account shall be credited with amounts charged to Accounts 5300, Uncollectible revenue, and 6790, Provision for uncollectible notes receivable to provide for uncollectible amounts related to accounts receivable and notes receivable included in Account 1170, Receivables. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1170. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 5300, Uncollectible revenue or directly to Account 6790, Provision for uncollectible notes receivable, as appropriate.

(c) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1180 Telecommunications accounts receivable is deleted.

Section 32.1181 Accounts receivable allowance—telecommunications is deleted

Section 32.1190 Other accounts receivable is deleted.

Section 32.1191 Accounts receivable allowance—other is deleted.

Section 32.1200 Notes receivable is deleted.

Section 32.1201 Notes receivable allowance is deleted.

Section 32.1210 Interest and dividends receivable is deleted.

Section 32.1220 Inventories is amended by revising paragraphs (g) and (h) to read as follows:

§ 32.1220 Inventories.

* * * * *

(g) Interest paid on material bills, the payments of which are delayed, shall be charged to Account 7500, Interest and related items.

(h) Inventories of material and supplies shall be taken periodically or frequently enough for reporting purposes, as appropriate, in accordance with generally accepted accounting principles. The adjustments to this account shall be charged or credited to Account 6512, Provisioning expense.

* * * * *

Section 32.1280 Prepayments is revised to read as follows:

§ 32.1280 Prepayments.

(a) This account shall include:

(1) The amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the rents are paid, this account shall be credited monthly and the appropriate account charged.

(2) The balance of all taxes, other than amounts chargeable to telecommunication plant under construction and minor amounts which may be charged to the final accounts, paid in advance and which are chargeable to income within one year. As the term expires for which the taxes are paid, this account shall be credited monthly and the appropriate account charged.

(3) The amount of insurance premiums paid in advance of the period in which they are chargeable to income, except premiums chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the premiums are paid, this account shall be credited monthly and the appropriate account charged.

(4) The cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged directly to Account 6620, Services. Amounts in this account shall be cleared to Account 6620 by monthly charges representing that portion of the expenses applicable to each month.

(5) Other prepayments not included in (1)-(4) above except for minor amounts which may be charged directly to the final accounts. As the term expires for which the payments apply, this account shall be credited monthly and the appropriate account charged.

Section 32.1290 Prepaid rents is deleted.

Section 32.1300 Prepaid taxes is deleted.

Section 32.1310 Prepaid insurance is deleted.

Section 32.1320 Prepaid directory expenses is deleted.

Section 32.1330 Other prepayments is deleted.

Section 32.1350 Other current assets is revised to read as follows:

§ 32.1350 Other current assets.

This account shall include the amount of all current assets which are not includable in Accounts 1120 through 1280.

Section 32.1401 Investments in affiliated companies is deleted.

Section 32.1402 Investments in nonaffiliated companies is deleted.

Section 32.1406 Nonregulated investments is amended by deleting paragraph (b).

Section 32.1407 Unamortized debt issuance expense is deleted.

Section 32.1408 Sinking funds is deleted.

Section 32.1410 Other noncurrent assets is revised to read as follows:

§32.1410 Other noncurrent assets.

(a) This account shall include the acquisition cost of the company's investment in equity or other securities issued or assumed by affiliated companies, including securities held in special funds (sinking funds). The carrying value of the investment (securities) accounted for on the equity method shall be adjusted to recognize the company's share of the earnings or losses and dividends received or receivable of the affiliated company

from the date of acquisition. (Note also Account 1170, Receivables, and Account 7300, Nonoperating income and expense.)

(b) This account shall include the acquisition cost of the Company's investment in securities issued or assumed by nonaffiliated companies and individuals, and also its investment advances to such parties and special deposits of cash for more than one year from date of deposit.

(c) Declines in value of investments, including those accounted for under the cost method, shall be charged to Account 4540, Other capital, if temporary and as a current period loss if permanent. Detail records shall be maintained to reflect unrealized losses for each investment.

(d) This account shall also include advances represented by book accounts only with respect to which it is agreed or intended that they shall be either settled by issuance of capital stock or debt; or shall not be subject to current cost settlement.

(e) Amounts due from affiliated and nonaffiliated companies which are subject to current settlement shall be included in Account 1170, Receivables.

(f) This account shall include the total unamortized balance of debt issuance expense for all classes of outstanding long-term debt. Amounts included in this account shall be amortized monthly and charged to account 7500, Interest and related items.

(g) Debt Issuance expense includes all expenses in connection with the issuance and sale of evidence of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; costs of engraving and printing bonds, certificates of indebtedness, and other commercial paper; fees paid trustees; specific costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen; fees and expenses of listing on exchanges, and other like costs. A subsidiary record shall be kept of each issue outstanding.

(h) This account shall include the amount of cash and other assets which are held by trustees or by the company's treasurer in a distinct fund, for the purpose of redeeming outstanding obligations. Interest or other income arising from funds carried in this account shall generally be charged to this account. A subsidiary record shall be kept for each sinking fund which shall designate the obligation in support of which the fund was created.

(i) This account shall include the amount of all noncurrent assets which are not includable in (a)-(h) above.

(j) A subsidiary record shall be kept identifying separately common stocks, preferred stocks, long-term debt, advances to affiliates, and investment advances. A subsidiary record shall also be kept identifying special deposits of cash for more than one year from the date of deposit. Further, the company's record shall identify the securities

pledged as collateral for any of the company's long-term debt or short-term loans or to secure performance of contracts.

(k) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to the equity method and the cost method. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1437 Deferred tax regulatory assets is deleted.

Section 32.1438 Deferred maintenance and retirements is renamed and revised to read as follows:

§32.1438 Deferred maintenance, retirements and other deferred charges.

(a) This account shall include such items as:

(1) The unprovided-for loss in service value of telecommunications plant for extraordinary nonrecurring retirement not considered in depreciation and the cost of extensive replacements of plant normally chargeable to the current period Plant Specific Operations Expense accounts. These charges shall be included in this account only upon direction or approval from this Commission. However, the company's application to this Commission for such approval shall give full particulars concerning the property retired, the extensive replacements, the amount chargeable to operating expenses and the period over which in its judgment the amount of such charges should be distributed.

(2) Unaudited amounts and other debit balances in suspense that cannot be cleared and disposed of until additional information is received; the amount, pending determination of loss, of funds on deposit with banks which have failed; revenue, expense, and income items held in suspense; amounts paid for options pending final disposition.

(3) Cost of preliminary surveys, plans, investigation, etc., made for construction projects under contemplation. If the projects are carried out, the preliminary costs shall be included in the cost of the plant constructed. If the projects are abandoned, the preliminary costs shall be charged to Account 7300, Nonoperating income and expense.

(4) Cost of evaluations, inventories, and appraisals taken in connection with the acquisition or sale of property. If the property is subsequently acquired, the preliminary costs shall be accounted for as a part of the cost of acquisition, or if it is sold, such costs shall be deducted from the sale price in accounting for the property sold. If purchases or sales are abandoned, the preliminary costs included herein (including options paid, if any) shall be charged to Account 7300.

Section 32.1439 Deferred charges is deleted.

Section 32.2000 Instructions for telecommunications plant accounts is amended by revising paragraphs (a)(2), (a)(4), (b)(2)(i), (b)(2)(iii), (b)(2)(iv), (c)(2)(x), (c)(2)(xiii), (d)(2)(i), (d)(4), (d)(5), (f)(3)(i), (g)(3), (g)(5), (h)(3), and (j) as follows:

§ 32.2000 Instructions for telecommunications plant accounts.

(a) * * *

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4300, Other long-term liabilities and deferred credits; when final determination has been made as to the amount to be returned, any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7100, Other operating income and expense.)

(3) * * *

(4) The cost of the individual items of equipment, classifiable to Accounts 2112, Motor vehicles; 2113, Aircraft; 2114, Tools and other work equipment; 2122, Furniture; 2123, Office equipment; 2124, General purpose computers, costing \$2,000 or less or having a life of less than one year shall be charged to the applicable expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of \$500 or less, shall be charged to the applicable Plant Specific Operations Expense accounts. The cost of tools and test equipment located in the central office, classifiable to central office asset accounts 2210-2232 costing \$2000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable material and supplies account until items are used.

(b) * * *

(2) * * *

(i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in

connection the acquisition) shall be charged to Account 1438, Deferred maintenance, retirements, and other deferred charges.

(ii) * * *

(iii) Accumulated Depreciation and amortization balances related to plant acquired shall be credited to Account 3100, Accumulated depreciation, or Account 3200, Accumulated depreciation--held for future telecommunications use, or Account 3410, Accumulated amortization--capitalized leases and debited to Account 1438. Accumulated amortization balances related to plant acquired which ultimately is recorded in Accounts 2005, Telecommunications plant adjustment, Account 2682, Leasehold improvements, or Account 2690, Intangibles shall be credited to these asset accounts, and debited to Account 1438.

(iv) Any amount remaining in Account 1438, applicable to the plant acquired, shall, upon completion of the entries provided in paragraphs (b)(2) (i), (ii) and (iii) of this section, be debited or credited, as applicable, to Account 2007, Goodwill, or to Account 2005, Telecommunications plant adjustment, as appropriate.

(3) * * *

(c) * * *

(2) * * *

(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications plant under construction, and credited to Account 7300, Nonoperating income and expense. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be the weighted average of the rates applicable to other borrowings of the enterprise. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

(xi) * * *

(xiii) "Indirect construction costs" shall include indirect costs such as general engineering, supervision and support. Such costs, in addition to direct supervision, shall include indirect plant operations and engineering supervision up to, but not including, supervision by executive officers whose pay and expenses are chargeable to Account 6720, General and administrative. The records supporting the entries for indirect construction costs shall be kept so as to show the nature of the expenditures, the

individual jobs and accounts charged, and the bases of the distribution. The amounts charged to each plant account for indirect costs shall be readily determinable. The instructions contained herein shall not be interpreted as permitting the addition to plant of amounts to cover indirect costs based on arbitrary allocations.

(xiv) * * *

(d) * * *

(2) * * *

(i) Retirement units: This group includes major items of property, a representative list of which shall be prescribed by this Commission. In lieu of the retirement units prescribed with respect to a particular account, a company may, after obtaining specific approval by this Commission, establish and maintain its own list of retirement units for a portion or all of the plant in any such account. For items included on the retirement units list, the original cost of any such items retired shall be credited to the plant account and charged to Account 3100 Accumulated Depreciation, whether or not replaced. The original cost of retirement units installed in place of property retired shall be charged to the applicable telecommunications plant account.

(ii) * * *

(4) The accounting for the retirement of property, plant and equipment shall be as provided above except that amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7100, Other operating income and expense, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating plant.

(5) When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any, between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7300, Nonoperating income and expense. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

(e) * * *

(f) * * *

(3) * * *

(i) Unit identification. Cost shall be identified and maintained by specific location for property record units contained within certain regulated plant accounts or account groupings such as Land, Buildings, Central Office Assets, Motor Vehicles, garage work equipment included in Account 2114, Tools and other work equipment, and Furniture. In addition, units involved in any unusual or special type of construction shall be recorded by their specific location costs (note also § 32.2000(f)(3)(ii)(B) of this subpart.

(ii) * * *

(g) * * *

(3) Acquired depreciable plant. When acquired depreciable plant carried in Account 1438, Deferred maintenance, retirements and other deferred charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1438.

(4) * * *

(5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated depreciation, and charge Account 1438, Deferred maintenance, retirements and other deferred charges, with the unprovided-for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6560, Depreciation and amortization expense over such period as this Commission may direct or approve.

(h) * * *

(3) Amortization charges shall be made monthly to the appropriate amortization expense accounts and corresponding credits shall be made to accounts 2005, 2682, 2690, and 3410, as appropriate. Monthly charges shall be computed by the application of one-twelfth to the annual amortization amount.

(4) * * *

(j) Plant Accounts to be Maintained by Class A and Class B telephone companies as indicated:

| Account Title | Class A Account | Class B Account |
|-------------------------------------|-----------------|-----------------|
| Regulated Plant | | |
| Property, plant and Equipment: | | |
| Telecommunications plant in service | (1) 2001 | (1) 2001 |
| Property held for future | 2002 | 2002 |

| | | |
|--|-------|-------|
| telecommunications use | | |
| Telecommunications plant under construction-short term | 2003 | 2003 |
| Telecommunications plant adjustment | 2005 | 2005 |
| Nonoperating plant | 2006 | 2006 |
| Goodwill | 2007 | 2007 |
| TELECOMMUNICATIONS PLANT IN SERVICE (TPIS) | | |
| TPIS-General support assets: | | |
| Land and support assets | ..... | 2110 |
| Land | 2111 | ..... |
| Motor vehicles | 2112 | ..... |
| Aircraft | 2113 | ..... |
| Tools and other work equipment | 2114 | ..... |
| Buildings | 2121 | ..... |
| Furniture | 2122 | ..... |
| Office equipment | 2123 | ..... |
| General purpose computers | 2124 | ..... |
| TPIS-Central Office assets: | | |
| Central Office-Switching | ..... | 2210 |
| Non-digital switching | 2211 | ..... |
| Digital electronic switching | 2212 | ..... |
| Operator systems | 2220 | 2220 |
| Central Office-Transmission | ..... | 2230 |
| Radio systems | 2231 | ..... |
| Circuit equipment | 2232 | ..... |
| TPIS-Information origination/termination assets: | | |
| Information origination termination | ..... | 2310 |
| Station apparatus | 2311 | ..... |
| Customer premises wiring | 2321 | ..... |
| Large private branch exchanges | 2341 | ... |
| Public telephone terminal equipment | 2351 | ..... |
| Other terminal equipment | 2362 | ..... |
| TPIS-Cable and wire | | |

| | | |
|------------------------------|-------|-------|
| facilities assets: | | |
| Cable and wire facilities | ..... | 2410 |
| Poles | 2411 | ..... |
| Aerial cable | 2421 | ..... |
| Underground cable | 2422 | ..... |
| Buried cable | 2423 | ..... |
| Submarine and deep sea cable | 2424 | ..... |
| Intrabuilding network cable | 2426 | ..... |
| Aerial wire | 2431 | ..... |
| Conduit systems | 2441 | ..... |
| TPIS-Amortizable assets: | | |
| Amortizable tangible assets | ..... | 2680 |
| Capital leases | 2681 | ..... |
| Leasehold improvements | 2682 | ..... |
| Intangibles | 2690 | 2690 |

(1) Balance sheet summary account only.

Section 32.2003 Telecommunications plant under construction is amended by revising paragraph (c) to read as follows:

§ 32.2003 Telecommunications plant under construction.

* * * * *

(c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to 43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense.

* * * * *

Section 32.2005 Telecommunications plant adjustment is amended by revising subparagraphs (1), (2), (3), and (4) of paragraph (b) to read as follows:

§ 32.2005 Telecommunications plant adjustment.

* * * * *

(b) * * *

(1) Debit amounts may be charged in whole or in part, or amortized over a reasonable period through charges to Account 7300, Nonoperating income and expense, without further direction or approval by this Commission. When specifically approved by this Commission, or when the provisions of paragraph (b)(3) of this section apply, debit amounts shall be amortized to Account 6560, Depreciation and amortization expense.

(2) Credit amounts shall be disposed of in such manner as this Commission may approve or direct, except for credit amounts referred to in paragraph (b)(4) of this section.

(3) The amortization associated with the costs recorded in the Telecommunications plant adjustment account will be charged or credited, as appropriate, directly to this asset account, leaving a balance representing the unamortized cost.

(4) Within one year from the date of inclusion in this account of a debit or credit amount with respect to a current acquisition, the company may dispose of the total amount from an acquisition of telephone plant by a lump-sum charge or credit, as appropriate, to Account 6560 without further approval of this Commission, provided that such amount does not exceed \$100,000 and that the plant was not acquired from an affiliated company.

Section 32.2007 Goodwill is amended by revising paragraph (a) to read as follows:

§ 32.2007 Goodwill.

(a) This account shall include any portion of the plant purchase price that cannot be assigned to specifically identifiable property acquired and such amount should be identified as "goodwill". Such amounts included in this account shall be amortized to Account 7300, Nonoperating income and expense, on a straight line basis over the remaining life of the acquired plant, not to exceed 40 years.

* * * * *

Section 32.2111 Land is amended by revising paragraphs (f) and (g) to read as follows:

§ 32.2111 Land.

* * * * *

(f) Installments of assessments for public improvement, including interest, if any, which are deferred without option to the company shall be included in this account only as they become due and payable. Interest on assessments which are not paid when due shall be included in Account 7500, Interest and related items.

(g) When land is purchased for immediate use in a construction project, its cost shall be included in Account 2003, Telecommunications plant under construction, until such time as the project involved is completed and ready for service.

* * * * *

Section 32.2123 Office equipment is amended by deleting paragraph (b).

Section 32.2210 Central office—switching is revised to read as follows:

§ 32.2210 Central office—switching.

This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212.

Section 32.2211 Analog electronic switching is renamed and paragraph (a) is revised to read as follows:

§ 32.2211 Non-digital switching.

(a) This account shall include:

(1) Original cost of stored program control analog circuit-switching and associated equipment.

(2) Cost of remote analog electronic circuit switches.

(3) Original cost of non-electronic circuit-switching equipment such as Step-by-Step, Crossbar, and Other Electro-Mechanical Switching.

* * * * *

Section 32.2212 Digital electronic switching is amended by revising paragraph (a), redesignating paragraph (b) as paragraph (e), and adding new paragraphs (b), (c), (d) as follows:

§ 32.2212 Digital electronic switching.

(a) This account shall include the original cost of stored program control digital switches and their associated equipment. Included in this account are digital switches which utilize either dedicated or non-dedicated circuits. This account shall also include

the cost of remote digital electronic switches. The investment in digital electronic switching equipment shall be maintained in the following subaccounts:

2212.1 Circuit

2212.2 Packet

(b) *2212.1 Circuit.* This subaccount shall include the original cost of digital electronic switching equipment used to provide circuit switching. Circuit switching is a method of routing traffic through a switching center, from local users or from other switching centers, whereby a connection is established between the calling and called stations until the connection is released by the called or calling station.

(c) *2212.2 Packet.* This subaccount shall include the original cost of digital electronic switching equipment used to provide packet switching. Packet switching is the process of routing and transferring information by means of addressed packets so that a channel is occupied during the transmission of the packet only, and upon completion of the transmission the channel is made available for the transfer of other traffic.

(d) Digital electronic switching equipment used to provide both circuit and packet switching shall be recorded in the above subaccounts based upon its predominant use.

(e) Switching plant excludes switchboards which perform an operator assistance function and equipment which is an integral part thereof. It does not exclude equipment used solely for the recording of calling telephone numbers in connection with customer dialed charged traffic, dial tandem switchboards and special service switchboards used in conjunction with private line service; such equipment shall be classified to the particular switch that it serves.

Section 32.2215 Electro-mechanical switching is deleted.

Section 32.2231 Radio systems is revised to read as follows:

§ 32.2231 Radio systems.

(a) This account shall include the original cost of ownership of radio transmitters and receivers. This account shall include the original cost of ownership interest in satellites (including land-side spares), other spare parts, material and supplies. It shall include launch insurance and other satellite launch costs. This account shall also include the original cost of earth stations and spare parts, material or supplies therefor.

(b) This account shall also include the original cost of radio equipment used to provide radio communication channels. Radio equipment is that equipment which is used for the generation, amplification, propagation, reception, modulation, and demodulation of radio waves in free space over which communication channels can be

provided. This account shall also include the associated carrier and auxiliary equipment and patch bay equipment which is an integral part of the radio equipment. Such equipment may be located in central office building, terminal room, or repeater stations or may be mounted on towers, masts, or other supports.

Section 32.2232 Circuit equipment is amended by revising paragraphs (a) and (b), redesignating paragraphs (b) and (c) as (e) and (f), and adding new paragraphs (b), (c), and (d) as follows:

§ 32.2232 Circuit equipment.

(a) This account shall include the original cost of equipment which is used to reduce the number of physical pairs otherwise required to serve a given number of subscribers by utilizing carrier systems, concentration stages or combinations of both. It shall include equipment that provides for simultaneous use of a number of interoffice channels on a single transmission path. This account shall also include equipment which is used for the amplification, modulation, regeneration, circuit patching, balancing or control of signals transmitted over interoffice communications transmission channels. This account shall include equipment which utilizes the message path to carry signaling information or which utilizes separate channels between switching offices to transmit signaling information independent of the subscribers' communication paths or transmission channels. This account shall also include the original cost of associated material used in the construction of such plant. Circuit equipment may be located in central offices, in manholes, on poles, in cabinets or huts, or at other company locations. The investment in circuit equipment shall be maintained in the following subaccounts:

2232.1 Electronic

2232.2 Optical

(b) *2232.1 Electronic.* This subaccount shall include the original cost of electronic circuit equipment.

(c) *2232.2 Optical.* This subaccount shall include the original cost of optical circuit equipment.

(d) Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic.

(e) This account excludes carrier and auxiliary equipment and patch bays which are includable in Account 2231, Radio Systems. This account also excludes such equipment which is an integral component of a major unit which is classifiable to other accounts.

(f) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to digital and analog. Such

subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.2311 Station apparatus is amended by revising paragraph (f) as follows:

§ 32.2311 Station apparatus.

* * * * *

(f) Periodic asset verification, as prescribed by generally accepted accounting principles, shall be taken of all station apparatus in stock that are included in this account. The number of such station apparatus items as determined by this verification together with the number of all other station apparatus items included in this account, shall be compared with the corresponding number of station apparatus items as shown by the respective control records. The original cost of any unreconciled differences thereby disclosed shall be adjusted through Account 3100, Accumulated Depreciation. Appropriate verifications shall be made at suitable intervals and necessary adjustments between this account and Account 3100 shall be made for all station apparatus included in this account.

* * * * *

Section 32.2424 Submarine cable is renamed and paragraph (a) is revised to read as follows:

§ 32.2424 Submarine & deep sea cable.

(a) This account shall include the original cost of submarine cable and deep sea cable and other material used in the construction of such plant. Subsidiary record categories, as defined below, are to be maintained for nonmetallic submarine and deep sea cable and metallic submarine and deep sea cable.

* * * * *

Section 32.2425 Deep sea cable is deleted.

Section 32.2682 Leasehold improvements is amended to revise paragraph (c) as follows:

§ 32.2682 Leasehold improvements.

* * * * *

(c) Amounts contained in this account shall be amortized over the term of the related lease. The amortization associated with the costs recorded in the Leasehold improvement account will be credited directly to this asset account, leaving a balance representing the unamortized cost.

Section 32.2690 Intangibles is amended to read as follows:

§ 32.2690 Intangibles.

(a) This account shall include the cost of organizing and incorporating the company, the original cost of government franchises, the original cost of patent rights, and other intangible property having a life of more than one year and used in connection with the company's telecommunications operations.

(b) Class A companies, except mid-sized incumbent local exchange carriers, shall maintain subsidiary records for general purpose computer software and for network software. Subsidiary records for this account shall also include a description of each class of all other tangible property.

(c) The cost of other intangible assets, not including software, having a life of one year or less shall be charged directly to Account 6560, Depreciation and Amortization Expense. Such intangibles acquired at small cost may also be charged to Account 6560, irrespective of their term of life. The cost of software having a life of one year or less shall be charged directly to the applicable expense account with which the software is associated.

(d) The amortization associated with the costs recorded in the Intangibles account will be credited directly to this asset account, leaving a balance representing the unamortized cost.

(e) This account shall not include any discounts on securities issued, nor shall it include costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance, sale or resale of capital stock.

(f) When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, amounts previously included in this account on the books of the various companies concerned shall not be carried over.

(g) Franchise taxes payable annually or more frequently shall be charged to Account 7240, Operating other taxes.

(h) This account shall not include the cost of plant, material and supplies, or equipment furnished to municipalities or other governmental authorities when given other than as initial consideration for franchises or similar rights. (Note also Account 6720, General & administrative.).

(i) This account shall not include the original cost of easements, rights of way, and similar rights in land having a term of more than one year. Such amounts shall be recorded in Account 2111, Land, or in the appropriate outside plant account (see Accounts 2411 through 2441), or in the appropriate central office account (see Accounts 2211 through 2232).

Section 32.3000 Instructions for balance sheet accounts—Depreciation and amortization is amended to read as follows:

§ 32.3000 Instructions for balance sheet accounts—Depreciation and amortization.

(a) * * *

(2) Subsidiary records shall be maintained for Accounts 2005, 2682, 2690, and 3410 in accordance with § 32.2000(h)(4) of this subpart.

(b) Depreciation and Amortization Accounts to be Maintained by Class A and Class B telephone companies, as indicated

| Account title | Class A account | Class B account |
|---|-----------------|-----------------|
| Depreciation and amortization: | | |
| Accumulated depreciation | 3100 | 3100 |
| Accumulated depreciation-Held for future telecommunications use | 3200 | 3200 |
| Accumulated depreciation-Nonoperating | 3300 | 3300 |
| Accumulated amortization-Capitalized leases | 3410 | 3410 |

Section 32.3100 Accumulated depreciation is amended by revising paragraph (b) and (d) to read as follows:

§ 32.3100 Accumulated Depreciation.

* * * * *

(b) This account shall be credited with depreciation amounts concurrently charged to Account 6560, Depreciation and amortization expenses. (Note also Account 3300, Accumulated Depreciation--Nonoperating.)

(c) * * *

(d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6560 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses. .

Section 32.3200 Accumulated depreciation—held for future telecommunications use is amended by revising paragraph (b) to read as follows:

§ 32.3200 Accumulated depreciation—held for future telecommunications use.

* * * * *

(b) This account shall be credited with amounts concurrently charged to Account 6560, Depreciation and amortization expenses.

Section 32.3300 Accumulated depreciation—nonoperating is amended by revising paragraph (b) and (c) to read as follows:

§ 32.3300 Accumulated depreciation—nonoperating.

* * * * *

(b) This account shall be credited with amortization and depreciation amounts concurrently charged to Account 7300, Nonoperating income and expense.

(c) When nonoperating plant not previously used in telecommunications service is disposed of, this account shall be charged with the amount previously credited hereto with respect to such property and the book cost of the property so retired less the amount chargeable to this account and less the value of the salvage recovered or the proceeds from the sale of the property shall be included in Account 7300, Nonoperating income and expense. In case the property had been used in telecommunications service previous to its inclusion in Account 2006, Nonoperating Plant, the amount accrued for depreciation thereon after its retirement from telecommunications service shall be charged to this account and credited to Account 3100, Accumulated depreciation, and the accounting for its retirement from Account 2006 shall be in accordance with that applicable to telecommunications plant retired.

Section 32.3400 Accumulated amortization is deleted.

Section 32.3410 Accumulated amortization—capital leases is amended by revising paragraph (b) and (c) to read as follows:

§ 32.3410 Accumulated amortization—capital leases.

* * * * *

(b) This account shall be credited with amounts for the amortization of capital leases concurrently charged to Account 6560, Depreciation and amortization expenses. (Note also Account 3300, Accumulated Depreciation-- Nonoperating.)

(c) When any item carried in Account 2681 is sold, is relinquished, or is otherwise retired from service, this account shall be charged with the cost of the retired item. Remaining amounts associated with the item shall be debited to Account 7100, Other operating income and expenses, or Account 7300, Nonoperating income and expense, as appropriate.

Section 32.3420 Accumulated amortization—leasehold improvements is deleted.

Section 32.3500 Accumulated amortization—intangibles is deleted.

Section 32.3600 Accumulated amortization—other is deleted.

Section 32.4000 Instructions for balance sheet accounts—liabilities and stockholders' equity is redesignated as section 32.3999 and revised to read as follows:

§ 32.3999 Instructions for balance sheet accounts—liabilities and stockholders' equity.

Liabilities and Stockholders' Equity Accounts to be Maintained by Class A and Class B telephone companies

| Account Title | Class A account | Class B account |
|--|-----------------|-----------------|
| Current liabilities: | | |
| Current accounts and notes payable | 4000 | 4000 |
| Customer's Deposits | 4040 | 4040 |
| Income taxes--accrued | 4070 | 4070 |
| Other taxes--accrued | 4080 | 4080 |
| Net Current Deferred Nonoperating Income Taxes | 4100 | 4100 |
| Net Current Deferred | 4110 | 4110 |

| | | |
|---|------|------|
| Nonoperating Income Taxes | | |
| Other current liabilities | 4130 | 4130 |
| Long-term debt: | | |
| Long Term debt and Funded debt | 4200 | 4200 |
| Other liabilities and deferred credits: | | |
| Other liabilities and deferred credits | 4300 | 4300 |
| Unamortized operating investment tax credits-net | 4320 | 4320 |
| Unamortized nonoperating investment tax credits-net | 4330 | 4330 |
| Net noncurrent deferred operating income taxes | 4340 | 4340 |
| Net deferred tax liability adjustments | 4341 | 4341 |
| Net noncurrent deferred nonoperating income taxes | 4350 | 4350 |
| Deferred tax regulatory adjustments--net | 4361 | 4361 |
| Other jurisdictional liabilities and deferred credits-net | 4370 | 4370 |
| Stockholder's equity: | | |
| Capital stock | 4510 | 4510 |
| Additional paid-in capital | 4520 | 4520 |
| Treasury stock | 4530 | 4530 |
| Other capital | 4540 | 4540 |
| Retained Earnings | 4550 | 4550 |

Section 32.4000 Current accounts and notes payable is added to read as follows:

§ 32.3400 Current accounts and notes payable.

(a) This account shall include:

(1) All amounts currently due to others for recurring trade obligations, and not provided for in other accounts, such as those for traffic settlements, material and supplies, repairs to telecommunications plant, matured rents, and interest payable under monthly settlements on short-term loans, advances, and open accounts. It shall also include amounts of taxes payable that have been withheld from employees' salaries.

(2) Accounts payable arising from sharing of revenues.

(3) The face amount of notes, drafts, and other evidences of indebtedness issued or assumed by the company (except interest coupons) which are payable on demand or not more than one year or less from date of issue.

(b) If any part of an obligation, otherwise includable in this account matures more than one year from date of issue, it shall be included in Account 4200, Long term debt and funded debt, or other appropriate account.

(c) The records supporting the entries to this account shall be kept so that the company can furnish complete details as to each note, when it is issued, the consideration received, and when it is payable.

(d) Subsidiary record categories shall be maintained for this account in order that the company may separately report the amounts contained herein that relate to nonaffiliates and affiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

Section 32.4010 Accounts payable is deleted.

Section 32.4020 Notes payable is deleted.

Section 32.4030 Advanced billing and payments is deleted.

Section 32.4040 Customer's deposits paragraph (b) is amended to read as follows:

§ 32.4040 Customer's deposits.

* * * * *

(b) Advance payments made by prospective customers prior to the establishment of service shall be credited to Account 4130, Other current liabilities.

Section 32.4050 Current maturities—long term debt is deleted.

Section 32.4060 Current maturities—capital leases is deleted.

Section 32.4070 Income taxes—accrued is amended and revised to read as follows:

§ Section 32.4070 Income taxes—accrued.